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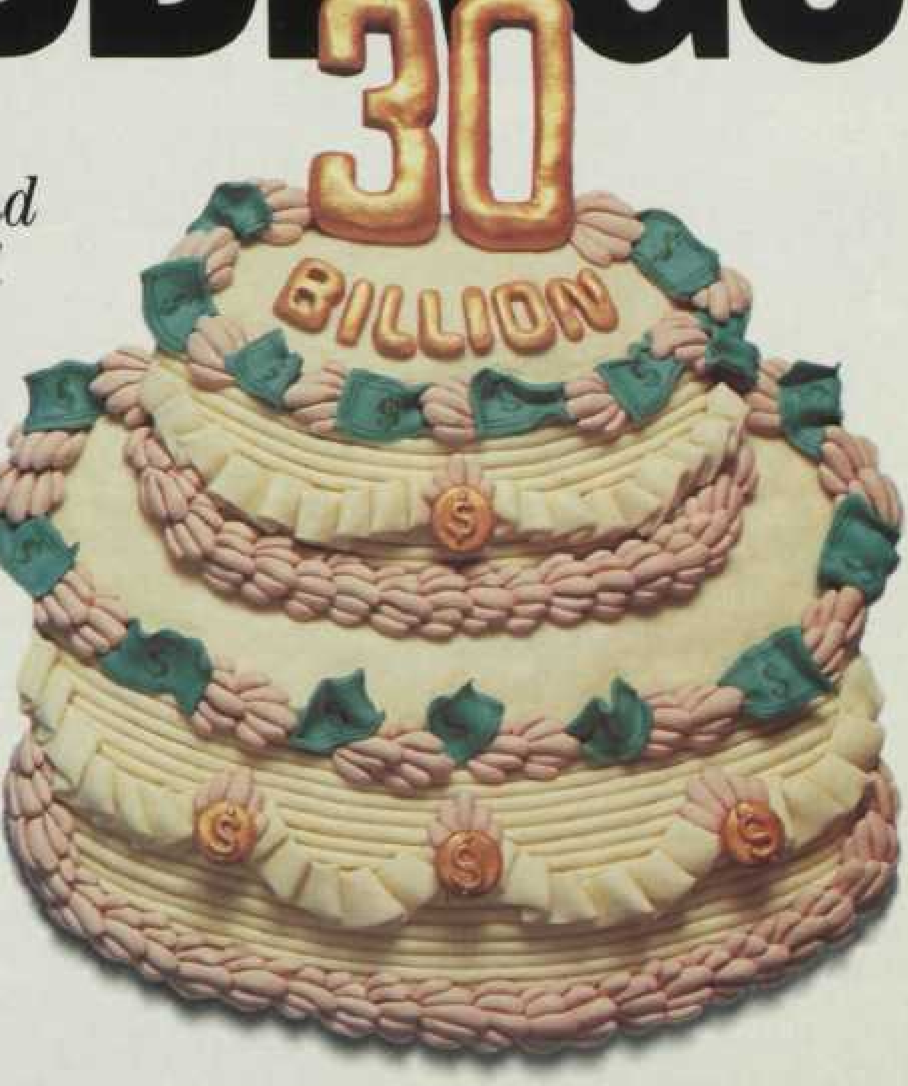
Nation's Business

Franchising: The '90s Will See Changes

Freelancers Could Cost You Plenty

Civil-Rights Bill Targets Business

WEDDINGS



Today's altar-bound couples can afford the works. Small firms are doing a big business meeting that demand.

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Nation's Business

VOL. 78, NO. 6

PHOTO: ©JIM STRATFORD—BLACK STAR

The wedding business *is big business for entrepreneurs such as consultant Bonnie Parrish, center, of Raleigh, N.C., shown helping Donna Sanderford and Chris Comer with their plans. Cover Story, Page 18.*

PHOTO: ©DOUG WILSON—BLACK STAR

Congress threatens *to sink Alec Brindle's Supreme Court victory in a job-bias case. Personnel, Page 28.*

Published by the U.S. Chamber of Commerce Washington, D.C.

Editor's Note

PHOTO: ©PAUL R. KENNEDY

Life-like, *museum-quality prehistoric beasts are California creations by Chris Mays. Making It, Page 13.*

DEPARTMENTS

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Entrepreneurs Who Like Their Work

PHOTO: ©GABE PALMER—THE STOCK MARKET

Our cover story this month deals with one of the few business sectors that are dominated by small firms. It's the $30-billion-a-year wedding business, which is made up of all those supporting cast members so vital to a major production. They are the people who make weddings happen: the dressmakers, florists, caterers, photographers, cake makers, and musicians, to name a few. Without them, most weddings would be pretty dull. No elaborate gowns. No flowers. No keepsake pictures. No food. No music.

As Senior Editor Roger Thompson notes in his story, there's a special business significance to trends in weddings today. A strong revival of interest in traditional weddings—those involving the widest range of support services—has created opportunities for both new and established firms.

One reason for this is that the average ages of altar-bound couples have increased, and they are more established—and more affluent—when they marry.

To put the current state of the wedding business into perspective, Thompson set out to talk to some of the people who have carved themselves little pieces of this gigantic market. Raleigh, N.C., a prosperous Sunbelt city that is both fast-growing and traditional, was chosen as a good place for a close-up look at the wedding business. More than 3,000 couples tied the knot there last year.

What we found were a lot of savvy small-business owners who really like their work. The largest, a caterer, employs 15 people full time. The smallest are home-based, one-person operations. Each in his or her own way has set out on the rocky road to business ownership to make money, for sure. But they all seem to be motivated by something more fundamental. In each case, the business is an expression of the individual running it.

In the wedding business, there is plenty of room for personalized entrepreneurship. Are there opportunities for you in this field? This month's cover story can help you answer that question.

Robert T. Gray

Robert T. Gray
Editor

Nation's Business

Letters

Debating Social Security

Re your April cover story, "Social Security: Hard Choices Ahead": The real debate is not whether we should fund Social Security on a pay-as-you-go basis but whether we should continue to confiscate money earned by the young to transfer it to the old.

This usurpation is especially unconscionable in the face of the relative wealth of many of today's retirees. Their homes are paid off, their kids are gone, their tax rates are lower, their benefits from the program will exceed their contributions, they get senior-citizen discounts, etc.

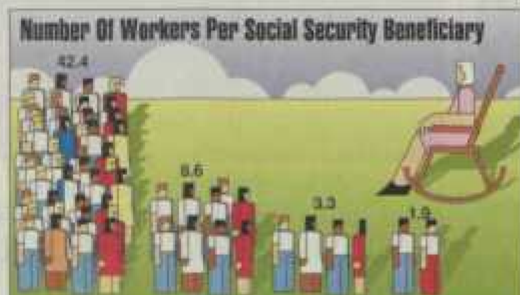

CHART: ©ROB LITTLE

Contrast this with the diminished expectations of today's young, who are now toiling increasingly longer to feather their grandparents' nests while mortgaging themselves to the hilt to purchase their own nests at greatly appreciated values.

The "Great Social Security Debate" of 1990, to which you refer, should focus on the question of making the system voluntary. Monies contributed stay in and can be withdrawn up to the amount contributed. But let the taxpayers decide if they want the government to be their retirement provider.

Michael R. Murray
Upper Darby, Pa.

I agree with the view of Rep. John Porter, R-Ill., that the Social Security system needs to be brought up to date, and some of his ideas may have merit. However, his proposal that retirees be required to purchase annuities that are indexed to inflation is laughable. Does he really think that requiring a retired person to fund himself against inflation is protection?

If everything were indexed to inflation, there would certainly be less pressure on the Federal Reserve and on Congress to hold inflation down.

Rep. Porter should realize that the only protection we have against inflation is a Congress that will balance the budget and keep it that way.

Harold E. Anderson
Georgetown Metal
Georgetown, Ky.

I am willing to give up any claim on Social Security benefits if our government will do two things:

One, refund as return of capital all deposits made into the system over the years.

Two, issue a tax credit for inflation and loss of use of funds.

I am 62 years old and in excellent health. I am sure there are others who would agree to the same arrangement.

John Davies
Cincinnati

The Social Security tax money appears to be at the disposal of the government "experts" to do with almost as they please. It is outrageous that we are overtaxed and the money will not provide even a percentage of the retirement we would buy if we kept the money (and didn't pay Social Security).

That the surplus funds from this account are being used to support other government spending is criminal. The surplus should be put into any safe, interest-yielding investment marked solely for Social Security recipients.

Tom Arguello
Anaheim, Calif.

I consider Social Security a great ripoff of the young workers by the elderly. Social Security is a transfer of earnings from working people to nonworkers. On what basis? Certainly not need, and not because the recipients have put it there.

Sure, some of the elderly are in need, but we seem to have adopted the philosophy that if we give it only to those in need, it is welfare and thus degrading. If we give it to all, regardless of need, then it is dignity.

Warren Y. Francis
Royersford, Pa.

A Missing Zero

As an insurance agent, one of my biggest costs is postage for mailing correspondence to insurance companies and clients and for marketing to prospective clients.

I am concerned about the graphic in your May cover story, "Postal Rates: The Growing Threat." My office mails

a large number of "saturation local advertisements" each month. Presently, the cost is $.101 per piece. If your graphic is correct, this cost will escalate to $.96 per piece. This would be an enormous 950-percent increase. Please tell me this is a misprint.

The rest of the article was quite an eye-opener. All I can say is that if my business were run like the U.S. Postal Service, I and my employees would be on the streets looking for other jobs.
Peter A. Warren
Berndt & Murfin Insurance Agency
Portsmouth, Ohio

[Editor's Note: The correct figure is $.096, or one-half of a cent less than the current rate. Saturation mail is one type for which the per-piece cost would decrease—to 9.6 cents from 10.1 cents—under the Postal Service's rate-increase filing.]

A Few Good Numbers

I enjoyed Sharon Nelton's April commentary, "We Could Use a Few Good Numbers," which addressed the lack of statistics on family businesses, and I can empathize with her remarks.

Our company is a distributor in the professional beauty industry, and not only are most of the distributors family-owned businesses, but our customers—beauty and barber salons in the Midwest—are mostly family-owned businesses.

In our industry, we have very few good numbers also, and are constantly fighting to get information to help us manage and plan.

Whatever we can do to supply small family businesses with good numbers will be well worth the effort.
Pamela K. Allen
Vice President of Operations
The Aerial Co.
Marinette, Wis.

Valuable Resources

Your excellent article "Retired—And Back At Work" [April] recognizes an increasingly valuable resource—retired executives.

In addition to consulting and volunteer work, many retired executives, as well as other knowledgeable individuals, are serving as outside directors. In this capacity, they can provide immediately useful knowledge and experience without the problems sometimes inherent in new employees or consultants.

While fees and other perks may amount to several thousand dollars per year, the value received is often beyond measure. Shared knowledge and new contacts can be very rewarding to both parties in today's rapidly changing business environment and global economy.

Our company matches qualified individuals with companies and addresses collateral problems, such as liability. Our growing client base attests to the timeliness of your article.
Bernard Anderson
Registration Director
International Directors
Durango, Colo.

Samoan Cousins

I read with interest your article entitled "Island Dreams" in the April issue [Making It]. Could it possibly be that Jack Thompson of Tihati Productions is the same person who was an All-American quarterback at Stanford and earned the nickname the "Throwin' Samoan"?
R.L. Adams
Louisville, Ky.

[Editor's Note: Jack Thompson says the "Throwin' Samoan," who shares his name, is his cousin. Tihati's Thompson describes himself as the "Dancing Samoan."]

Cardinal Sins

"Cardinal Sins of Management" [February] gives a list of actions that a manager should learn to avoid. While most of these tips are very helpful, I found one to be misleading. Mark Stevens' theory of "Don't 'fix what ain't broke' " suggests that a smoothly operating business should be left alone.

A person living by such a rule limits his or her own creativity and hurts the business by removing the idea of planning for the future.

This also makes it very difficult to see needed changes in operations. It gives management a false sense of security because it then takes a major problem to get management's attention.

A good manager should be able to foresee potential problems and correct them before they occur, instead of waiting for them to occur. Companies conforming to the notion of "don't fix what ain't broke" eventually will be overrun by their competition.
Jeffery A. Steffens
Moscow, Idaho

Send letters to Editor, Nation's Business, *1615 H Street, N.W., Washington, D.C. 20062, and include your phone number. Letters addressed to the Editor will be considered for publication unless the writer requests otherwise, and they may be edited and condensed.*

ENTREPRENEUR'S NOTEBOOK

A Group Formula For Independence

By Paul H. Woodruff

I started an environmental consulting company with two basic management tools: knowledge of the nuts and bolts of running a business and an understanding of human nature. While both have proved important to the success of the business, it has been the company's commitment to work *with* human nature rather than against it that has proved pivotal to its growth.

ERM Inc. and the affiliated companies that make up the Environmental Resources Management Group offer environmental management services that range from laboratory services to management consulting.

The group consists of 30 affiliated companies, which operate 60 offices around the world and generate annual revenues of about $140 million.

I started ERM Inc. in Philadelphia in 1977 after 13 years as a consulting engineer. The group structure was implemented about a year later when a former associate from years earlier, Doug Diehl, expressed interest in starting an environmental consulting business in Texas. He wanted to operate his own company, but he also wanted an association with an established business to ease the start-up process. We agreed that a joint venture between his company and ERM would work well.

The result was formation of ERM-Southwest. It was based on an idea that has become a basic principle throughout ERM: People perform best when they control their own destinies and when they work most directly for their own benefit. ERM-Southwest was formed under equal ownership by Diehl and ERM. This joint-ownership approach was followed by similar arrangements at ERM-Northeast, ERM-Midwest, and other affiliates.

> *Our group structure allows a large number of key people to experience the exhilaration of running their own businesses.*

Most of these new ventures were begun by me and one to four new partners in each affiliate, generally engineers and scientists; two resulted from acquisitions.

At most of the affiliates, the partners now own more than half of the firm, with the balance of ownership held by the approximately 10 shareholders of ERM Inc. Ownership of the ERM Group is now shared by about 100 individuals.

Each affiliate's individual operations are run by its own officers, and each enjoys the benefits of belonging to a large international organization.

The ownership arrangement of the ERM Group gives shareholders a direct incentive to promote the success of all the affiliates. This mutually beneficial relationship also allows the group to avoid most of the turf battles common in traditional multiple-office corporate settings.

The group is organized into geographic regions, with each affiliate providing services tailored to meet the needs of clients in that region. In a traditional corporate setting, this arrangement would translate into regional or branch offices, with each competing with the home office for new business and the credit that goes with it.

The group structure removes the impetus for that type of competition for a variety of reasons. First, ERM Inc. does not have to compete with the affiliates for new business because its shareholders profit from the success of all the affiliates. Also, as majority owners of their companies, affiliate-company partners have a long-term interest in building successful organizations. Their objective is to develop competitive companies. They are not striving for promotion to corporate headquarters.

Each company in the group has a marketing advantage over an entirely autonomous operation by having access to all services offered anywhere in the group. This access often comes through use of project teams composed of two or more affiliates. ERM Inc. provides all affiliates with some services that are best distributed from a central operation. The corporation provides marketing support, including publications and press releases. Affiliates pay only direct expenses for this support, so ERM does not have to justify every dollar spent to 29 other companies. The corporation also provides insurance on a centralized, groupwide basis to take advantage of the reduced unit costs of a larger base.

Like any business structure, the group system has some faults. Because policy is set by consensus rather than by edict, it generally takes more time to make decisions that affect groupwide initiatives.

Also, we sometimes have a hard time keeping track of capabilities and activities within the corporation, which can result in inefficient marketing.

But these shortcomings are far outweighed by the growth, diversification, and profitability that have resulted from the professional freedom that ERM Group principals and employees enjoy.

Perhaps most important, though, our group structure allows a large number of key people to experience the exhilaration of running their own businesses. It gives these individuals a direct stake in the amount of success they enjoy, and it encourages development of innovative services to fulfill the partners' diverse business goals and interests. Since its inception, the ERM Group has built its foundation around its people. They have continued to perform as its most valuable asset. NB

Paul Woodruff founded the ERM Group, a multidisciplinary environmental consulting organization with 60 offices worldwide. It is based in Exton, Pa.

Readers are invited to contribute to Entrepreneur's Notebook. Write to: Editor, Nation's Business, *1615 H Street, N.W., Washington, D.C. 20062.*

Small-Business Update

Early intelligence on resources to help you take advantage of the changing business climate.

SMALL BUSINESS ADMINISTRATION

SBA Outlines Improvements For Financing Programs

The Small Business Administration plans several major actions to make its lending programs more effective for small businesses. SBA Administrator Susan B. Engeleiter has announced that the agency will take action in these areas:

Export Assistance. SBA will expand its Export Revolving Line of Credit program by adding financial experts to its staff; these experts will work with lenders and with state and local groups to "recruit and assist" small exporters and provide such firms with short-term loans.

In addition, Engeleiter said, the International Trade Loan program, created by the 1988 trade law, is initiating full service. The trade-loan program allows borrowers to obtain up to $250,000 in capital and $1 million in loan guarantees for foreign trade.

Streamlining. SBA will seek to identify the strengths and shortcomings of its 7(a) guaranty loan program, a major source of last-resort loans for small firms. Internally, SBA hopes to upgrade its own administrative accounting systems overall.


PHOTO: T. MICHAEL KEZA

Susan Engeleiter, *head of the SBA, is acting to reinvigorate the agency.*

Incentives for small loans. By allowing lenders to increase their fees for small loans, SBA hopes to boost the number of SBA loans of $50,000 or less.

More help for women and veterans. The goals are to increase loan applications from women by 5 percent and boost loan applications from veterans by 10 percent.

In a separate announcement, Engeleiter said President Bush has directed her to reinvigorate the SBA, which was an embattled agency frequently targeted for elimination in the 1980s. Speaking to the Association Insiders, a group of Washington trade-group officials organized by the U.S. Chamber of Commerce, Engeleiter said the president has asked Congress for $5.6 billion in SBA lending authority for fiscal 1991. This request is a 30-percent increase from the fiscal 1990 budget request.

SBA's surety-bond program in 1991 would get a "healthy increase," she said, to $1.5 billion, up from $1.25 billion in 1990. Surety bonds help about 30,000 disadvantaged contractors in construction businesses. Their loss rate at SBA—about 1 percent—is comparable with that in the private sector, Engeleiter said.

HEALTH INSURANCE

Smaller Firms Face Special Problems On Health Care

Small businesses face particular obstacles in providing health care for employees, a benefits expert told a congressional committee looking into the issue.

Frank Mason, chairman of Mason Corp., in Birmingham, Ala., and a member of the Health and Employee Benefits Committee of the U.S. Chamber of Commerce, said: "The problems of spiraling health-care costs and growing gaps in health coverage have been well-documented in recent years. The plight of small business in the health-insurance marketplace has not."

Mason testified before the House Small Business Committee, which is looking into the costs of payroll taxes, health care, and health insurance as they affect smaller firms.

Mason pointed out that health-insurance problems unique to smaller firms included their lack of access to managed-care plans, which include health-maintenance organizations and preferred-provider plans. These plans provide health services to enrolled members under flat-fee or discount arrangements, respectively.

"HMOs often do not write accounts for companies with fewer than 25 employees, [and] many insurance carriers do not offer benefit plans with aggressive managed-care features to their small-business customers," Mason said. He added that current tax laws discriminate against the self-employed by allowing them only a 25-percent deduction for health-insurance payments while corporations can deduct 100 percent.

Mason urged action by the insurance industry to increase the availability and affordability of health insurance for smaller companies and said that the small-business community is willing to work with the industry "to achieve these reforms." The alternative, he added, would be intensified pressures for mandated health insurance and national health insurance.

WOMEN IN BUSINESS

A Board Of Directors Extends A Firm's Reach

Women entrepreneurs should consider using a board of outside directors or advisers as a "surrogate" network, suggests an authority on entrepreneurship.

Roger H. Ford, director of the Center for Entrepreneurship at James Madison University, in Harrisonburg, Va., says that many new female entrepreneurs lack key business contacts because they have been employed in nonmanagement positions such as teaching or have been out of the work force during child-bearing years.

The author of a chapter in the book *Women-Owned Businesses*, Ford says that a board of well-chosen people from outside the company can be an important strategic tool for "an entrepreneur whose network may be inadequate to access the information and resources needed by the firm."

Ford offers these guidelines for building a board of directors:

1. Establish reasonable goals for your board. A board cannot solve all of a firm's problems. "Entrepreneurs should focus on using boards to expand their networks and avoid expecting boards to get overly involved in operational and day-to-day issues," Ford advises.

A board can be used as "tentacles" that enable you to extend your reach into the outside world, he says, "improving access to the financial community, sales contacts, government agencies, foreign markets, human resources, and numerous other external constituencies of the firm."

2. Recruit key members. Select individuals who truly have the qualifications to help realize established goals. Start with five to seven members, including yourself.

Also include a few top insiders from your company who can ensure that necessary internal information is available when board members are together.

3. Do your homework. Spend the time necessary to prepare detailed briefing materials to allow your board members to fully understand your firm, its current position, and its strategies. Send update reports, an agenda, and other relevant material to each member in advance of meetings to make the maximum use of the limited formal board time available.

4. Make a long-term investment. Think of your board as a future-oriented tool, not a quick fix. "Immediate results, such as five new customers or an overnight resolution of a legislative issue affecting the industry, are not realistic expectations," says Ford.

In choosing board members, you may want to recruit generalists, such as seasoned entrepreneurs or corporate officers.

Ford recommends, however, that you should try to obtain the best generalists available, not necessarily those you already know.

People you know, he points out, are "already available for an opinion or favor from time to time."

Weigh the pros and cons before you establish a board, Ford advises.

If you decide to go ahead, your personal, long-term commitment to developing your board as a tool for the future will be essential to its success.

Women-Owned Businesses (Praeger Publishers, $42.95) is a collection of scholarly papers edited by Oliver Hagan, Carol Rivchun, and Donald Sexton. For information on the book, write or call Greenwood Press, 88 Post Road West, Box 5007, Westport, Conn. 06881; (203) 226-3571.

INTERNATIONAL TRADE

U.S. To Permit Technology Sales To Eastern Europe

U.S.-based manufacturers and distributors of high-speed microcomputers, precision machine tools, and fiber-optic products should begin negotiating deals immediately in Eastern and Central Europe, says the Department of Commerce official who controls America's exports to that region.

PHOTO: ©AL STEPHENSON

Dennis Kloske *urges small firms to pursue customers in Eastern Europe.*

Although companies still are prohibited by U.S. government regulations from delivering those and many other high-technology products to buyers in Bulgaria, Czechoslovakia, East Germany, Hungary, Poland, Romania, and Yugoslavia, those regulations will likely be eased substantially in the next few weeks, according to Dennis Kloske, undersecretary of commerce for export administration.

"There is an emerging consensus in the [Bush] administration that we need to liberalize vis-à-vis Eastern Europe to reflect the democratic nature of the governments currently in power there," Kloske says. "My advice to [U.S. manufacturers] is not to wait a minute" to pursue customers in that region.

Nonetheless, Kloske warns that the political unrest in the Soviet Union will deter the administration from easing controls on exports there.

He says, "It doesn't take a rocket scientist to discern that the Soviet Union is headed for a period of great instability."

The new regulations will provide broad guidelines detailing permissible transactions so that export licenses no longer will require case-by-case approval.

U.S. exporters have complained frequently that case-by-case licensing takes so long that it often costs them sales.

NB TIPS

Management Challenges

Dun & Bradstreet's Small Business Services division has produced a booklet based on intensive focus-group interviews with small-business owners. Called *Challenges of Managing a Small Business*, the booklet lists 10 common problems, from obtaining adequate capital to coping with regulations, with solutions offered by the owners. For a free copy, call 1-800-367-7782, or write Debbie Thornbury, Dun & Bradstreet Business Credit Services, 1 Diamond Hill Rd., Murray Hill, N.J. 07974.

Chemical Accidents

The U.S. Environmental Protection Agency has introduced a new videotape on the Emergency Planning and Community Right-to-Know Act (EPCRA). "What It Means To You" tells business owners how to prevent chemical accidents and toxic releases into the environment. The 15-minute tape costs $21.50 (postage and handling included) and can be obtained by calling Colorfilm Corp. at 1-800-882-1120, or by calling the Office of Environmental Assistance at the EPA, (202) 382-3803.

Truck Safety

The Small Business Legislative Council, in Washington, D.C., has produced a new guide to truck-driver safety rules for businesses that use their own vehicles to transport goods. *A Small Business Guide to Truck Driver Safety Rules* costs $24.50, plus $1.50 postage and handling. Bulk rates are available. To order or to obtain more information, contact SBLC at 1025 Vermont Ave., N.W., Suite 1201, Washington, D.C. 20005; (202) 639-8500.

COBRA Coverage

To help employers comply with the latest changes in requirements for continuation of health-plan coverage as set forth in COBRA—the Consolidated Budget Reconciliation Act of 1985—the accounting firm of Price Waterhouse recently issued the third edition of *The COBRA Handbook*. Under the act, employers must provide employees and their families with the opportunity to continue health-plan coverage despite events that historically resulted in termination of insurance.

The handbook outlines the recently enacted amendments to COBRA and explains other revised requirements. The guide costs $175, plus sales tax. Orders should be sent to *The Cobra Handbook*, Thomas Bloomers, Price Waterhouse, 555 California St., San Francisco, Calif. 94104. NB

Dateline: Washington

What's happening in the corridors of power that will affect your business.

EASTERN EUROPE

Bush Urges Aggressive Investment Overseas

American companies must move more aggressively into overseas markets if they hope to beat their foreign competitors, President Bush told delegates to the annual meeting of the U.S. Chamber of Commerce.

Referring to new Japanese joint ventures in Eastern Europe, Bush said, "there's nothing unfair about these ventures. They are just proof that one of our key competitors is engaged in a hard-nosed hunt for good opportunities in a new market."

The president continued: "American business can out-think, out-work, outperform any nation in the world. But we can't beat the competition if we don't get in the ball game." He urged U.S. companies to act now.

Acknowledging that the government must also act, Bush announced the establishment of a new privately managed "Eastern European growth fund" that will be underwritten in part by the Overseas Private Investment Corp. OPIC is a U.S. government agency that provides loans and risk insurance for American companies expanding into markets in developing nations.

Bush also said that the U.S. Chamber is "helping millions of people realize their dream of democracy" through its new Eastern European Trade and Technical Assistance Center. The center is a nonprofit Chamber affiliate providing private-sector advice and assistance to Eastern Europe and the Soviet Union and helping U.S. companies explore trade and investment opportunities there.

In his address, the president also called on business people to "get involved in every school and community across America" to "advance this great cause of excellence in education." He also urged support for his plan for federal budget reform. The plan calls for presidential authority to veto line items in appropriations bills, and it seeks a constitutional amendment requiring a balanced federal budget.

Bush said budget reform "is essential to our nation's economic future," and he thanked the Chamber for being "on the front lines of the battle for budget reform."

PHOTO: T. MICHAEL KEZA

President Bush *addresses the Chamber.*

POSTAL INCREASES

New Bill Would Enhance Scrutiny Of Rate Hikes

Rep. Frank McCloskey, D-Ind., has introduced legislation that would strengthen the Postal Rate Commission's authority to review rate-increase requests from the U.S. Postal Service.

A Postal Service request to raise rates an average of 19 percent, now pending before the commission, has spotlighted limits placed on the commission's authority to reject increases.

McCloskey's bill would give the Postal Rate Commission the authority to compel the Postal Service to provide the information the commission needs to assess rate requests. It would also clarify the commission's authority to evaluate the Postal Service's estimates of the revenue it needs to break even.

According to McCloskey, the bill attempts "to address some institutional shortcomings in the planning and management of the Postal Service's fiscal structure."

TAXES

Debate Begins On How To Change Estate Rules

The debate has begun on Capitol Hill on changing estate-freeze rules that have made it financially prohibitive for many owners of family businesses to transfer their firms to their heirs.

The debate is focusing on a draft proposal released by the House Ways and Means Committee. The measure would repeal the rules but replace them with provisions that some tax experts say are too broad and complex.

"There is a consensus that Section 2036(c) of the Internal Revenue Code should be repealed. The issue now is what will replace it," says David R. Burton, manager of the Tax Policy Center of the U.S. Chamber of Commerce.

Kenneth W. Gideon, the Treasury Department's assistant secretary for tax policy, is urging lawmakers to limit their debate on Section 2036(c)—which contains the estate-freeze rules—to how a business should be valued before transfer.

The debate should not focus on whether estate taxes are too high, Gideon says. If Congress wants to deal with that issue, it should do so directly by reducing rates, he told the Ways and Means Committee, although he was not advocating a rate cut. The top estate-tax rate is 55 percent.

SERVICES

Business Can Air Views By Calling The Chamber

The U.S. Chamber of Commerce provides telephone services to let business people register their views on Washington issues.

The numbers, with the cost of the first/additional minutes of telephone calls, are:

The Washington Dial, a weekday update on key business issues. 1-900-420-6001; $1.00/50 cents.

The Business Ballot, a survey of business attitudes. Each Chamber member receives a ballot. 1-900-420-2004; 50 cents.

Opinion Line, a poll of viewers of the weekly television program "It's Your Business." 1-900-420-6002; $1.00/50 cents. Check local television listings for times and dates. NB

Making It

Growing businesses share their experiences in creating and marketing new products and services.

PHOTO: ©RICH FRISHMAN

Two Women Who Combine Old Values With New Dreams

Seattle entrepreneurs *Heather Ramsay, left, and Paula Ward have built a business on the public's appetite for handmade products.*

They've been in business now for four years. If comparing first- to fourth-year sales figures is a way to measure success, Heather Ramsay and Paula Ward are creating more than a ripple in the world of functional, high-design products.

Their Seattle-based company's name is Parvenue. That's a slight variation of a French word that, loosely translated, means either "newcomer" or "upstart." The label describes its owners more than it indicates what their company does. Parvenue manufactures distinctive merchandise that takes advantage of Heather Ramsay's designing skills and taps a renewed wave of consumer interest in personal articles with a handmade touch. As Ramsay says, "Handmade is becoming precious again."

Ramsay and Ward, both 34, have built Parvenue's sales from $153,000 in its first year to nearly $1 million in 1989. Since starting with handmade clocks, they have expanded their line to 35 items—handcrafted jewelry, decorative boxes, candlestick holders with a "new but old" look, and miniature picture frames that appear to be of Civil War vintage. The clocks sell at retail for $115 to $230; the other items range in price from $30 to $135.

The two women chuckle now when they reflect on the time when they considered abandoning the whole thing. Says Paula Ward, an MBA who handles the business side:

"Early on, it was no bed of roses. Undercapitalizing, having to borrow money on a credit card to meet an early payroll, rounding up suppliers who'd been stung before by female pie-in-the-sky entrepreneurs . . . it all turned pretty heavy at times."

Ward had spent 10 years on the consulting staff of a Seattle accounting firm before she decided she wanted out. Ramsay had toyed with becoming an actress and with starting an export-import business before she opened a de-

sign studio. She built and wholesaled what she calls "old/new" clocks, peddling them door to door to West Coast galleries.

Ward, after leaving the accounting firm, wanted to start her own business. Her goal: to be involved in the design, manufacture, and marketing of a high-design, artistic product. Her problem: She had no skill or experience in design.

She got involved with some people with similar ambitions; one of them knew Ramsay, and they approached her about licensing her clock design for manufacture overseas. That idea fell through for lack of capital, but Ward then suggested that she and Ramsay go into business together. Says Ramsay: "I, the artist, was looking for a business person. Paula, the business person, was looking for a designer. A partnership seemed the logical answer." In 10 meetings over breakfast they worked out the details of their partnership. Their first marketable product would be the same as Ramsay's: clocks. But their marketing strategy did not include any more door-to-door cold-calling.

Their first priority was to locate sales representatives with reputations for integrity. Ward visited trade shows and talked to dozens of wholesalers and retailers as she hunted for reps.

The new business got off to a shaky start, not only because its owners were inexperienced but also because their clocks were so popular that Ward and Ramsay had to fill many roles at once: designing, manufacturing, accounting, warehousing, and marketing. Today they have a staff of 15, most of whom work in manufacturing.

They aim for sales in high-end specialty stores and museum gift shops. Target cities, aside from Seattle, are San Francisco, Los Angeles, Dallas, Miami, Chicago, and Atlanta.

Ward and Ramsay have developed their philosophy of product development the hard way, as Ward explains:

"When we designed something strictly for the market, it bombed. When we designed it from the heart, sales boomed. Now we approach a design by saying, 'This is what I love; this is what I'd like to wear; this is what I'd like to have in my home.' When we do that, it sells."

—Merritt Des Voigne

The Perils Of Success In An "Invisible Business"

For many business owners, it would be galling to say of their companies what Vincent J. McGuinness says of his: "It's an invisible business." For McGuinness, invisibility is simply a fact of life.

McGuinness heads a cluster of firms—known collectively as the McGuinness Cos.—that wholesale financial products to retail brokers. The McGuinness Cos. help what McGuinness calls the "manufacturers" of such products—primarily insurance companies—design and market annuities, oil-and-gas limited partnerships, and the like.

As McGuinness is well aware, the intricacies of such products can intimidate prospective buyers. "When we do it right," he says of his marketing efforts, "we take something that's somewhat complex, and without losing anything that should be discussed, bring it down to a simple story."

He never deals with the public, and few other companies do what his do—no more than four or five, he thinks. Hence his invisibility.

McGuinness runs a small operation, based in Newport Beach, Calif., but he deals in large numbers. In 1989, he says, "with a team of 65 people, we did business with about 4,000 stockbrokers, who in turn persuaded or motivated 20,000 investors to buy the products." Those 20,000 investors spent about $935 million on insurance products, and a little under $47 million on limited partnerships in oil and gas. Altogether, almost $1 billion poured into the McGuinness Cos.

As McGuinness is quick to explain, most of that money poured out again, on its way back to the manufacturers. He won't say how much his privately held firms kept as their share, but a reasonable guess would start somewhere above $10 million.


PHOTO: ©RENE SHERET

Vincent J. McGuinness' *small operation deals in big numbers.*

McGuinness, 55, a native of Brooklyn, became a stockbroker in 1960, after spending three years in the Marine Corps. Then he became a wholesaler of mutual funds, doing so well that after a few years he tried unsuccessfully to retire. Then he started an investment-counseling business. "It was on its way to being a nice business," he says, "but I was bored."

Around that time, he noticed that a big insurance company had come out with an annuity that was *too* successful. The insurer got rattled by the overwhelming response and pulled the product off the market. "I was sitting there thinking, what an incredible piece of market information," McGuinness recalls. In 1974, he began designing and marketing annuities and other financial products, first for one insurance company and then for others. Next, Prudential Insurance Co. recruited McGuinness to market some of its products to retail brokers—primarily its own subsidiary, Prudential-Bache Securities Inc.

Last year, Pru-Bache accounted for about $500 million in sales of McGuinness-marketed products. "We were so successful at that," McGuinness says, "we no longer do it." As a result of what he calls "a very professional negotiation," he no longer represents Prudential in dealings with Pru-Bache. He will still work with Prudential, though, by selling its products to other brokers.

Even though he lost more than half of his company's sales volume, McGuinness says he is rapidly making that up. In any case, he says, "there won't be a crunch. A middleman has to build a strategy where you can turn on a dime, and where fixed costs are truly a modest percentage of the total costs. We've always done that, and I think that's one reason we're still alive."

—Michael Barrier

Bringing Back The Days When Dinosaurs Stalked The Earth

For 30 years, Chris Mays lived the life of men's dreams. He went from landing jets on aircraft carriers to flying international routes as a pilot for Trans World Airlines. The pay for his TWA job was excellent, the travel exotic, and the hours limited. Yet Mays yearned for something more.

In 1982, he found his niche—in the fantastic world of 70 million years ago—when his imagination was sparked by several large, animated dinosaur replicas that he saw in Japan. Mays, his brother, and four friends each contributed $20,000 in seed money, and Mays founded Dinamation International Corp. in his garage in San Juan Capistrano, Calif.

PHOTO: ©LAURIE MINOR—SMITHSONIAN INSTITUTION

Chris Mays' *life-like dinosaurs and other prehistoric beasts wow museumgoers like these in Washington, D.C.*

Mays ordered several of the Japanese dinosaurs, and, while waiting for them to arrive, considered a variety of ways to market them.

He decided that museums would be the best customers, because the only dinosaurs that museum visitors ever saw were fossilized bones. The Japanese dinosaurs were not scientifically accurate, though, and so were not suitable for museums.

To win the acceptance of the museum community, Mays established an advisory board of paleontologists and hired sculptors and artists to create "real" dinosaurs—true to life in size, coloring, and texture—under the watchful eyes of the experts. Dinamation also hired an engineer and some technicians to develop a robotic system superior to the one used in the Japanese-made dinosaurs.

Mays was a part-time CEO at first, piloting for TWA several days a week and organizing the company on his days off. He resigned from TWA in 1986, when the dinosaurs went into full-time production.

PHOTO: ©PAUL R. KENNEDY

Since then, Mays has forged his company—still headquartered in San Juan Capistrano, but no longer in his garage—into a fast-growing corporation with more than 200 employees and revenues in excess of $10 million annually. Dinamation manufactures more than two dozen types of dinosaurs—it has built more than 400 of the creatures so far—in its plant in Santa Ana, Calif.

As soon as Dinamation's dinosaurs began to be displayed in science and natural-history museums, the company's fortunes soared. In Buffalo, N.Y., for example, children and their parents swamped the city's science museum while a Dinamation exhibit was there. Visitors totaled 247,000—five times the normal number for that three-month period—and membership in the museum doubled, to more than 4,000.

Dinamation got its most prestigious showcase last April, when it opened a dinosaur exhibit at the Smithsonian Institution in Washington, D.C. That exhibit will end on Labor Day.

The exhibits are blends of science and theater. The settings are dark, with flashing lights and thunder to simulate volcanic action. The dinosaurs' heads and extremities move, and their eyes blink. Some mimic the tearing of flesh from dead prey.

Its dinosaurs have been so popular that Dinamation is branching out to replicas of ancient sea monsters, prehistoric mammals, and giant insects. The company also offers a Future Zoo that shows how contemporary animals might look after 50 million more years of evolution.

"The animated creatures are the hooks to get people into museums," Mays says. Soon they will be the hooks for the Dinamation learning centers that the company hopes will spring up across the country. The prototype will open next fall in Orange County, Calif., as a combination museum and hands-on science-education center. Also in the works: modular exhibits for schools, each dealing with a scientific subject such as volcanoes or magnets.

Mays, 54, was born in Youngstown, Ohio, and studied engineering at Youngstown College before becoming a Navy pilot.

Despite his success, Mays says, he still encounters difficulty gaining acceptance in the business world. Bankers confront him with bemused stares. They'd be happy to finance cars, backhoes, or real estate—but dinosaurs?

Even so, Mays says, dinosaurs will remain the company's mainstay. "There's an attraction and mystery about them," he says. "Every kid who reaches the age of 5 falls in love with them. I'm not going to try to figure out why. It just happens, and we'll capitalize on that fascination."

—*David Colley*

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COVER STORY

Romancing A $30 Billion Market

By Roger Thompson

Don Penven, a former corporate graphics director, launched his business with a video camera he had charged at a J.C. Penney store.

Meribeth Ratterree, an award-winning pastry chef, runs her cake-baking business out of her townhouse kitchen.

Mary Greiner, a symphony oboist, remodeled her basement to set up an office to run her booking service for musicians.

Jean Massengill's interest in flower arranging blossomed into a flower-retailing business.

Liddy Waling, an accomplished designer and seamstress, quit her full-time job and rented studio space to go it alone.

Sandra Burnett and her sister Betsy sold their highly rated restaurant, and Sandra has gone full time into catering.

What all these people have in common—apart from the fact that they live in Raleigh, N.C.—is that they have tapped into one of America's booming service occupations: the multibillion-dollar wedding business.

For $365, Penven provides the bride and groom with a one-hour edited video of their special day. Ratterree will deliver a memorable wedding confection at $1.50 to $3 a slice. Greiner supplies musicians who can include a classical guitarist for $175 or a string quartet for $395. Massengill designs floral arrangements to meet any budget; for a small to average wedding, the bill ranges between $400 and $1,000 (her rule of thumb for making a profit is $200 per bridal attendant). A reception catered by Sandra Burnett costs an average $20 to $35 per person. Waling will design and make an original wedding gown for about $2,500, depending on the amount of hand beading and lace work—more than three times the price of most gowns.

All this amounts to only a partial accounting of what is spent on a typical formal wedding today. Don't forget the

PHOTO: T. MICHAEL KEZA

Weddings with all the elegant extras are more popular than ever, and that means profits for small firms in specialties from consulting to catering.

PHOTO: ©JIM STRATFORD—BLACK STAR

Brides, grooms, and entrepreneurs: *Consultant Bonnie Parrish, in center above, helps Donna Sanderford and Chris Comer plan their wedding. At left, Burnie Batchelor and daughter Joy prepare to photograph Kelly Harrell.*

rings, invitations, gifts for attendants, groom's tuxedo, attendants' dresses, bride's veil and shoes, limo, and the reception. All that tallies up to an average wedding tab of $13,310, according to *Modern Bride* magazine. (See the chart on Page 21.) It's no wonder that Cele Goldsmith Lalli, the magazine's editor in chief, regards weddings as "a business project as well as an emotional and spiritual event."

Indeed, weddings are business on a grand scale. More than 2.4 million couples stepped up to the altar last year. *Bride's*, the largest bridal magazine, estimates that first-marriage couples—64 percent of the total—spent $28 billion in 1988 on weddings, gifts, honeymoons, household furnishings—everything associated with getting married. *Modern Bride*, the No. 2 bridal magazine, estimates that the total wedding market, including first marriages and remarriages, generated $31 billion in retail sales in 1989. Of that amount, $534 million went to wedding gowns, $5.9 billion to receptions, and $2.7 billion to honeymoon travel. (See "What She Does For Love," on Page 26.)

Demographics propelled the market in the 1980s as the postwar baby-boom generation—those born between 1946 and 1964—reached prime marrying age. The number of weddings peaked at just under 2.5 million in 1982 and has remained at around 2.4 million a year ever since. That figure will recede through the 1990s as the pool of young people in their prime marriage years—their mid-20s—shrinks dramatically from the peak baby-boom years. The youngest baby boomers now are 26.

Lifestyle changes also have altered the wedding market and will continue to do so. Young men and women are now delaying first marriages to complete their education and establish careers. Among women who are 20 to 24, 61 percent had not yet married in 1988, compared with 36 percent in 1970, says the Census Bureau. Among men in this age group, 78 percent had not married in 1988, compared with 58 percent in 1970. The median age for first marriages among women in 1988 was 23.6 years, compared with 25.9 for men—the highest levels ever recorded.

The wedding business has lots of repeat customers, too. Roughly half of all first marriages end in divorce, and the remarriage business is booming. In 36 percent of all weddings, the bride, groom, or both are remarrying, according to the Census Bureau.

Even if the number of weddings declines in the 1990s, there is no sign of diminished interest in lavish, traditional weddings. If anything, interest in elegant big bashes is stronger than ever. The price tag for a formal wedding has tripled since the early 1980s.

> *The wedding business is fertile ground for start-ups seeking niches.*

Today's couples spend more because the trend toward later marriage means they are earning more when they wed. A *Bride's* survey of readers found that the average combined income of newlyweds was 35 percent above the average U.S. household income.

These older, two-income couples, moreover, have given rise to a fast-growing new business venture—wedding consulting. Established couples know what they want and can afford to pay for it, but often they don't have time to plan it. That's where consultants come in.

Although weddings are big business, the enterprises that supply the goods and services to this lucrative market often are quite small. The florist, the bridal shop, the caterer, the photographer, and the bridal consultant are sole proprietorships or family concerns with

just one to a few employees.

The small-business owners mentioned above are typical of those in the wedding business across the U.S. Their hometown of Raleigh, the capital of North Carolina, offers a striking example of the environment in which such businesses thrive. It's a prosperous, midsized Sunbelt city, large enough to reflect national trends but small enough not to exaggerate them.

The Raleigh area provides expanding markets for established wedding businesses and fertile ground for start-ups seeking a niche. In fact, wedding-business start-ups are flourishing in the Raleigh area, where more than 3,100 couples exchanged vows last year.

Like most new enterprises, those in the bridal business deal every day with such fundamentals as sales, advertising, customer service, and cash flow. Although almost all of the owners are drawing on previous experience to build a business for themselves, some have never run a business before. Says wedding-cake creator Ratterree, "I started small, and I'll see what happens."

Ratterree and the others have plenty of enthusiasm. Each has set out on the road to business ownership to make money, of course, yet all seem to be motivated by something more fundamental: For each one, the business has become an expression of the individual. In the wedding business, there is plenty of room for personalized entrepreneurship. From consultant to caterer, here are some of those entrepreneurs:

PHOTO: T. MICHAEL KEZA

Her kitchen *is the heart of Meribeth Ratterree's wedding-cake business.*

Bonnie and Don Parrish launched their consulting business, Raleigh Wedding Consultants Inc., on a part-time basis in the fall of 1988. "We spent about eight months surveying the

Feasts And Flowers With Ethnic Accents

Many altar-bound couples today want to preserve ethnic customs, an interest that adds entrepreneurial opportunities to the traditional wedding business. Here's a sampling of small companies that are serving that market:

Setting The "Sweet Table"

Maria Ventrella and her husband, Mario, co-owners of Il Giardino Bakery, provide an authentic ethnic touch to Italian-American weddings on Chicago's West Side with *le torta nuziale*, wedding cakes replete with custard and laden with *zuppa inglese* (a licorice flavoring) or coffee-flavored mocha filling. The cakes and the wide range of offerings for the "sweet table" found at Italian weddings represent half of the Ventrellas' business.

Those cakes look strikingly different from the traditional American wedding cake. The circular layers are set on a stand that has a swirl of small shelves, art-deco props that resemble miniature winding staircases. "I got those stands in Italy," says Maria. "Every year, in Italy, they come up with new things for weddings." Staple items are important, too. Competing for room in a refrigerated display case are such sweet-table items as orange cream "melon" slices rimmed with green pistachios; small, highly caloric *cannoli*; and a whipped-cream construction topped with a cherry, called a *babà*. Standing out also among the swans, éclairs, and other cream puffs is the dark, sweetly sinister *tartufina*, a luscious lode of chocolate crowned with pistachios.

PHOTO: T. MICHAEL KEZA

Bakers *Maria and Mario Ventrella.*

As Maria Ventrella describes her firm, the sister, mother, and grandmother of a bride-to-be arrive to buy her wedding *confetti*, known widely as candied almonds. The nuts are dipped in colored, melted sugar, which hardens to a shiny coat. "For those favors, they wrap them in netting, tie them with a bow, and give them to guests," Maria says. "Five they put in."

Five?

"Yes. Five almonds. It's tradition. Five is good luck."

—Bradford A. McKee

Floral Fanfare

Given the cultural mix of Hawaii, island weddings often blend Western, Polyne-

Raleigh area, meeting caterers, photographers, florists, and finding sites for weddings and receptions" before opening the business, says Bonnie. At the time, they weren't aware of any competition, she says, but now she has noticed that "three or four other consultants have popped up."

The Parrishes planned nine weddings in 1989; all the business came from the spread of their reputation. A typical Raleigh wedding costs $5,000 to $10,000, but the Parrishes recently handled a low-budget wedding that cost only $1,000. The Parrishes' fee is 15 percent of all the services they handle, which they say their clients recoup because of special discounts that consultants arrange with vendors.

Bonnie hopes the business will grow large enough in two years to let her take on consulting full time. The Parrishes are building an addition to their home to serve as an office.

Average Costs Of A Formal Wedding

Invitations, announcements	$ 250
Fees for ceremony	150
Flowers	410
Photographs	950
Music (ceremony, reception)	850
Limousine	155
Gifts for attendants	240
Rings	2,575
Bride's attire	730
Attendants' attire (4)	500
Groom's formal-wear rental	70
Men's formal wear (4)	280
Reception/Dinner (200)	6,150
Total	$13,310

SOURCE: MODERN BRIDE MAGAZINE

Don Penven bought a video camera to film his daughter's wedding in 1986, and he was bitten by the entrepreneurship bug. He was so taken with the video technology that he quit his job as a vice president for graphic arts with a Raleigh manufacturing firm in April 1987 and opened his own wedding-video business, Mid-Atlantic Productions. "I started it [the business] from a spare bedroom at home," says Penven. He took out a home-equity loan to handle an early cash-flow crunch.

Penven's fledgling business has grown steadily. Two years ago, he rented a 1,000-square-foot office/studio. He recently moved into larger quarters in the same office building. Last fall, he hired a part-time employee to add still photography to his services. His wife, Michelle, who works for the business three days a week, jokes that she got the bedroom back when Don rented the first office space. And she got back the spare bathroom when the business moved into the new studio, which has space for a photo lab.

Penven admits that when he and Michelle started the company, "we didn't have the vaguest idea of what we were doing." For example, he figured out what to charge by calling the competition and setting his price $10 lower—without consideration of his overhead or labor costs.

Meribeth Ratterree says she learned most of what she knows about the wedding-cake business "from the school of hard knocks." She attended a

sian, and Asian customs. A couple may marry at a Christian church, hold a reception embellished by Japanese *origami* cranes at the tables, stage an extravagant *luau*, and enjoy a Chinese lion dance or a Western rock-and-roll band. Island flowers, however, contribute the decorative touch that makes the celebration truly Hawaiian.

Elizabeth Kuuipo Lau, owner of Sweetheart's Lei Shop, on the edge of Honolulu's Chinatown, relies solely on word-of-mouth promotion for wedding accounts, which are roughly one-fourth of her livelihood. Customers come from all over the island of Oahu.

"In a very Hawaiian wedding, the only flowers will be leis," says Lau. The groom usually wears *maile*, which is a dark-green leaf, and *pikake*, which Lau calls "the best flower, white like pearls and ... that sweet smell." *Pikake* is the floral choice of *ali'i*, or royalty.

Bridesmaids, she says, often wear *haku*, leis woven from ferns and small flowers, which take a long time to make. Thus, Lau relies on contractors to get the *haku* to the church on time.

Orders for wedding leis range in price from about $50 to $250. Prices for *pikake*, ginger, and ilima flowers fluctuate seasonally.

In 1985, *Honolulu Star-Bulletin* readers named Sweetheart's Oahu's best lei shop. Readers said her shop is popular because Lau, whose daughter-in-law Kathy works with her, treats each customer like *ohana*—family.

—Tino Ramirez

Tradition On A Grand Scale

The Home of the White Eagle, a low-rise building of 65,000 square feet, is a nucleus of sheer nuptial numbers for Chicago's Polish-American community—the largest group of Poles outside Warsaw.

The building is also the headquarters of Przybylo Catering Co., which Ted Przybylo founded in 1967. His son, Andrew, runs it today. Its six banquet halls can accommodate 2,300 guests at wedding feasts where the menus include mushroom-barley soup, *pierogi* (similar to meat turnovers), Polish sausage with sauerkraut, beef brisket, and chicken giblets over *kluski*, which is a Polish pasta dish.

For an average weekend, the catering company buys approximately 750 pounds of sausage, 1,100 pounds of beef, and 400 three-pound chickens.

At a base rate of $26.50 per guest, the White Eagle serves up $3.75 million worth of Polish tradition annually.

PHOTO: © KEN SAKAMOTO—BLACK STAR

Florist *Kathy Lau.*

The victuals call forth long-gone days of Eastern Europe, but Przybylo Catering isn't hidebound. Says Andrew: "I don't care how good your formula is, you'd better keep your menu alive, changing."

—Bradford A. McKee

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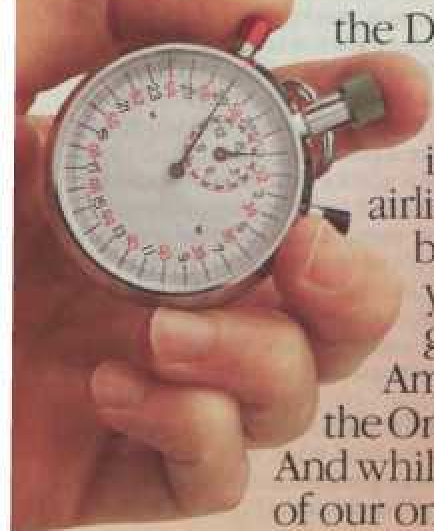

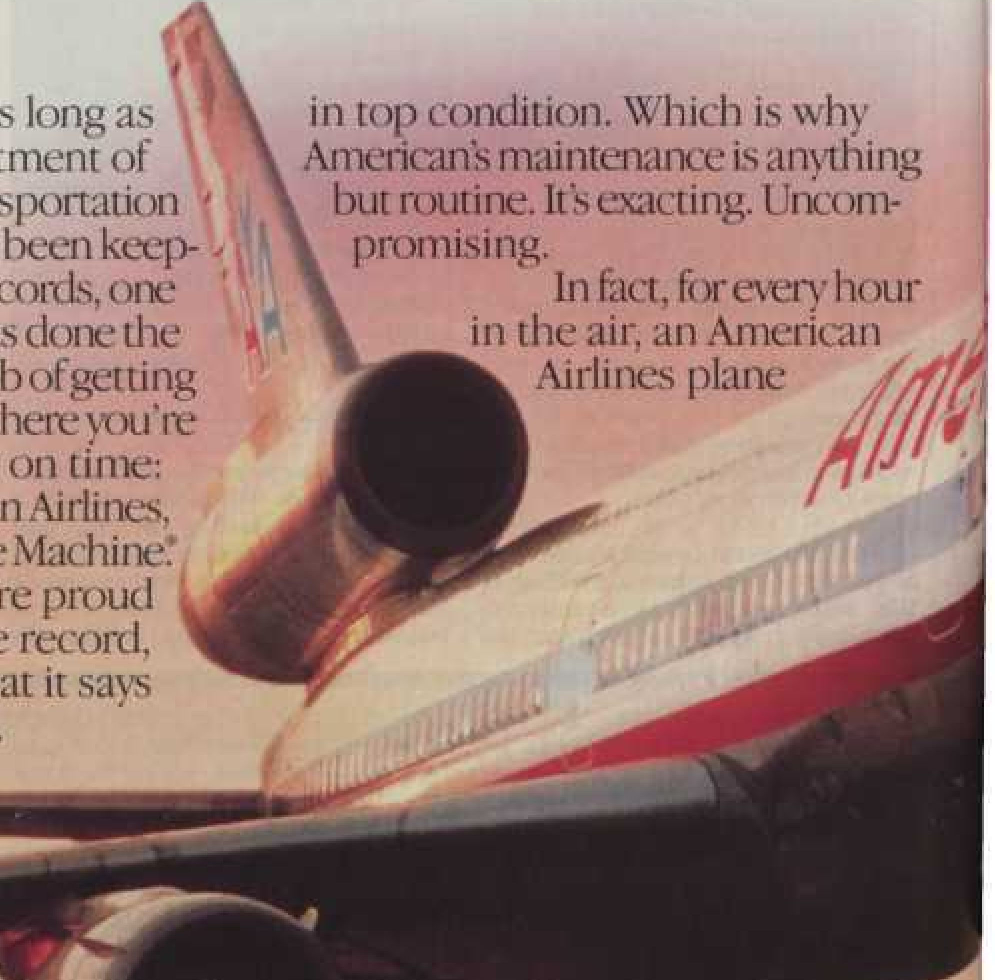

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cooking and pastry school in Rhode Island before moving to Raleigh, where she made a name for herself as an award-winning pastry chef for the restaurant in the North Carolina Museum of Art. She was working six days a week, 10 to 12 hours a day, she says, when she decided that "if I'm going to work that hard, I might as well do it for myself."

She launched Wedding Cakes by Meribeth in her home in 1988. While she has no shortage of competition from bakeries, caterers, and other home-based businesses like her own, Ratterree stays busy. One weekend she delivered 11 cakes, but she vows she'll never do that many by herself again.

A big part of Ratterree's appeal is that she bakes all her cakes from scratch and uses butter to give icings a rich, creamy taste. Quality costs more, but she has developed a niche for sumptuous confections with names like French Raspberry Truffle, Double Chocolate Mousse, and Blue Ridge Mountain Apple Cake with caramel nut filling—all $2.25 a slice. Her most grandiose wedding creation was priced at $1,200.

For Ratterree, learning how to sell her cakes was the toughest part of starting her business. At first, she says, she was afraid of rejection. "I designed my brochure. I designed my business cards. I baked the cakes. If people didn't like what I had to offer, I figured they didn't like me."

That fear of rejection delayed her implementation of a simple but highly effective marketing plan. She wanted to deliver six-inch sample cakes to caterers, florists, and other wedding vendors to promote her business. "But I was scared to death of walking in and selling myself," she recalls. When she finally made the first deliveries, her little cakes made a big impact. Referrals began to trickle in. And Ratterree's fears were cured. She now looks forward to delivering her sample creations.

Mary Greiner, an oboist with the North Carolina Symphony, is trying hard to make all the right moves with her first business. Her Musicians Booking Agency sets itself apart from the competition by requiring all the musicians to sign a strict etiquette contract. The contract states that a musician who performs for a wedding or any other event will wear formal attire and will not eat, drink, smoke, chew gum, bring children or dates, or hand out business cards.

"It's very strict. That's why they call me the warden," Greiner jokes. But her clients love it. "People come to me because of the etiquette contract," she says. "I'm the only one who has it."

Greiner launched her agency two years ago with a five-year plan to phase out her symphony job as her business grows to a full-time endeavor. Roughly half of her bookings are for weddings.

She takes a full-service approach to working with her clients. They are invited to her home office to listen to tapes of the musicians they are considering. Greiner does not allow bands to use the same play list again and again. For weddings, she makes sure the band plays the favorite songs of the bride, the groom, and their parents.

The toughest parts of the business for Greiner have been concerned with deciding how much to charge and how to market her agency's services. She has sought the advice of a business consultant who helped her over one early hurdle: When she initially set rates for the 44 musicians or bands in her agency, she forgot to factor in payment for her own time.

Jean Massengill, president of Flower Haus 'n Gifts, decided to open a flower shop five years ago to liberate her home from her fledgling silk-flower business, which she says "nearly took over the house." At first, the new shop required 16- to 18-hour days, and Massengill ran herself ragged trying to keep up. But she now has two full-time and two part-time employees, and she shares management responsibilities with her husband. She currently averages 10 hours a day.

While weddings account for only a part of her total business, they are "icing on the cake," she says. "We'd sure miss them if we didn't have them."

To attract brides-to-be to do business with her firm, Massengill stocks a number of rental wedding accessories, such as kneeling benches, silver goblets and cake knives, candelabra, and ring bearers' pillows. She also supplies invitations, stationery, and napkins. "Lots of florists don't help brides with invitations or rent equipment," she says.

The most difficult part of her business is knowing how to price her arrangements and services, Massengill says. "In retailing, you buy for $5 and sell for $10. But in the floral business, it's very different. You have to account for flower loss and high labor costs. You just have to wing it as best you can."

Closing a sale poses another major problem. Massengill doesn't charge for the time she puts into helping a bride-to-be decide what type of flowers she wants for the wedding. Often, a bride-to-be will use Massengill's price list to do comparison shopping. "Sometimes I give the bride two hours of my time, and then I don't get the order," she says. "We end up giving away lots of

PHOTO: T. MICHAEL KEZA

"Miracle worker" *Liddy Waling restores heirloom gowns and designs new ones.*

Later marriage means couples are earning more and can afford the weddings they want.

time that we are not compensated for."

Liddy Waling takes great pride in knowing that some of her customers call her a "Miracle Worker." Those who have seen what she can do to restore tattered lace and beadwork on an heirloom wedding gown are amazed by her artistry. She can even make a size 6 antique gown fit a size 14 modern bride, with no visible signs of alteration.

But alteration and restoration tap only part of her creative talent. She also designs and makes original wedding gowns, veils, and head pieces. "I love to create," says Waling. "I can visualize the finished product in my mind, something most people can't do."

Waling began learning the skills of dressmaking at age 16 as an apprentice to her aunt in Manila. The nuns at her convent school taught her embroidery and intricate beadwork. She moved to the U.S. in 1972 and has used her design and sewing skills to earn a living. Until recently, however, she had always worked for someone else.

Waling and her husband settled in Raleigh three years ago, and she developed a future client base while working as a seamstress and veil designer in the bridal department of an exclusive women's clothing store. Last fall, she opened her own business, Waling Designs. Although she advertises in the Yellow Pages and the local newspaper, most of her business comes from referrals.

Steady growth poses a problem for Waling's business. By mid-March, she already had work booked through November. "I don't know how long I can handle working alone," she says, but she fears that finding skilled assistants won't be easy: "Why should someone work for me, when she could work for herself?"

The solution to this problem, she says, is to send patterns of her dress designs to the Philippines, where there is ample skilled labor to complete her creations. Says Waling, "Other designers do it, why shouldn't I?"

Sandra Burnett's catering business, Sisters' Catering Co., is only a year old, yet it draws on a solid reputation for fine cuisine and attentive service that she and her sister, Betsy, began establishing almost 15 years ago. That's when, as novices, they opened Sisters' Restaurant in a Raleigh YWCA. They figured the city was ripe for a restaurant with European flair, yet they agreed to assess the future after five years.

Wedding Dates

1989	Number Of Marriages	Percent Of Total
January	117,000	4.9
February	126,000	5.2
March	159,000	6.6
April	185,000	7.7
May	228,000	9.5
June	291,000	12.1
July	217,000	9.0
August	245,000	10.2
September	231,000	9.6
October	210,000	8.7
November	188,000	7.8
December	208,000	8.6
Total:	2,405,000	

SOURCE: NATIONAL CENTER FOR HEALTH STATISTICS

Sandra took charge of the kitchen and became an accomplished self-taught chef. Betsy attended to the details of customer service and ambience. They developed such a loyal clientele that after five years their business future was clear: They opened a larger restaurant.

The new Sisters' earned rave reviews and multiple awards over the years as the most romantic place to dine in Raleigh. In fact, it was so romantic that Sisters' became a popular site for weddings. "We couldn't book them all," says Sandra. "We were losing a lot of business."

In the wedding business, there is plenty of room for personalized entrepreneurship.

To handle demand, Sandra catered weddings in the ballroom of a downtown residential hotel. Business boomed, but she lost the lease on the space. In desperation, Sandra asked the Raleigh Woman's Club in late 1988 about leasing its 25,000-square-foot building and basing her catering service there. When the Woman's Club said yes, she and Betsy quickly sold the restaurant. "The long hours were too much for me, and Betsy hardly ever saw her family," says Sandra.

Although the restaurant's passing was widely mourned, the Sisters' name lives on in the new catering business. Betsy, who is not involved with her sister's catering business, now operates a bed-and-breakfast with her husband in a small town north of Raleigh.

Sandra says Sisters' Catering employs 15 people full time and handled about 200 weddings last year. Weddings represent more than 60 percent of her total catering business, and the average billing for one is about $5,000.

Sisters' location at the Woman's Club gives it a distinct advantage over other Raleigh caterers who do not have facilities to offer for wedding receptions. The club can accommodate up to several hundred people at a time.

Sandra notes that success in the catering business isn't as easy as she makes it appear. She and Betsy spent years building the reputation that now goes with the Sisters' name. "I guess it was more solid than I ever realized," says Sandra.

Although start-ups are developing niches in the Raleigh wedding market, many small firms established their presence years ago. Two of the best known are Burnie Batchelor Studio Inc. and Mordecai Bridal and Tuxedo.

Burnie Batchelor got his start in photography as a student at North Carolina State University in Raleigh. He photographed sports events, processed the film in a bathroom at home, and sold the pictures to the local newspaper. That was nearly 40 years ago.

Although engineering was his major at the university, Batchelor went into photography. Over the years, he built a reputation for quality work, acquired a loyal following, and won scores of awards. Today, Batchelor presides over a thriving business, owns his own photo lab, and has eight full-time employees, including his daughter Joy.

Joy says that when she joined her father's business five years ago, she had no experience with a camera. She learned quickly, however, and now handles most of the weddings. With her father's help, she has also mastered the art of studio bridal portraits. Joy estimates that weddings and bridal portraits now make up about one-third of the business.

One of the payoffs for business longevity is that satisfied customers keep

What She Does For Love

By Sharon Nelton

Beth Miller Augerinos likes honeymoons so much that in her 20 years as a travel agent, she has planned about 2,000 of them.

"I'm a romantic," confesses Augerinos, who sold her partnership in one travel agency last year and launched another—Herndon Worldwide Travel. Her new agency, in the Washington, D.C., suburb of Herndon, Va., sports a division called Perfect Honeymoons Travel. She's aiming to build honeymoons into 45 percent of her business.

According to a 1988 *Bride's* magazine survey of readers, honeymooners generate $3.7 billion in retail sales annually, with couples spending an average of $2,515 on wedding trips. Augerinos finds that in her market, honeymooners spend $1,400 to $4,000. But she doesn't expect to get rich off her business. Travel agencies make their money on the commissions they get—7 to 15 percent, depending on the product. Typically, Augerinos says, agency owners and managers make $22,000 to $35,000 a year.

PHOTO: ©GABE PALMER—THE STOCK MARKET

The honeymoon: *a $2,500 escape.*

Augerinos earned $34,000 last year, she says, but during her new agency's start-up year, she will have to do $1 million in sales to realize the $20,000 salary she has budgeted for herself. "So you have to be in this business because you're crazy or you love travel or you like people or like to talk," she says. "I think I'm a combination of all of the above."

A lot of travel agencies don't want to touch honeymoons, Augerinos says. "They're too time-consuming. Couples need a lot of direction." In the two or three hours she might spend helping a couple plan a honeymoon trip, she could be booking a number of business trips and making more money. Nonetheless, Augerinos likes the challenge of working with couples making their honeymoon travel arrangements. "It takes more skill suggesting what a couple might be interested in based on their needs than it does just booking air flights," she says.

The most popular choices among her clients are trips to the Caribbean or Hawaii or honeymoon cruises. And when couples call and begin with, "You're going to think this is stupid," she knows they want to go to Walt Disney World. "That is about the 10th-most-popular place to go on a honeymoon," she says.

The most unusual honeymoon she ever put together was for a couple who wanted a custom-designed trip to see the headhunters of New Guinea.

As one way to promote her business, Augerinos organizes an annual bridal show at a local hotel, inviting other small firms to take booths, and she lines up seminars on topics such as wedding flowers, honeymoons, and "Why You Should Not Let Uncle Fred Videotape Your Wedding."

She also offers a "Bridal Honeymoon Registry" service, enabling friends and relatives to purchase gift certificates applicable to the couple's wedding trip. "The perfect honeymoon is the ultimate wedding gift!" proclaims one of her promotional pieces.

Of course, not all honeymoons are perfect. She sent one couple to a Caribbean island, telling them "absolutely there had never been a hurricane at that time of the year." After a freak storm knocked out the island's electricity and flooded the hotels, Augerinos got a collect call from the irate bride, who claimed she was having the most miserable time of her life. "I will never guarantee sunny weather again," says Augerinos.

If Augerinos were to marry again, where would she want to go on her honeymoon? Kona Village Resort on the big island of Hawaii. "That, to me, is one of the most romantic spots on the face of this earth."

coming back. Wedding couples photographed by her father in the early years of his firm now have children and grandchildren who want their own wedding photos and other portraits done by the Batchelors, says Joy.

While Joy learned a lot from her father, she was able to teach him a thing or two about pricing his services. "When I came to work for my father, he was still using the same prices he had for years," she recalls. She took charge of updating prices for the company's services. "Pictures are my father's business," she says. "He doesn't deal with the price structure so much."

Emma Hutzler, owner of Mordecai Bridal and Tuxedo, didn't set out 25 years ago to open a bridal shop. She had been doing floral arrangements from her home and decided to open a shop to accommodate her growing business. Because so many of her customers ordered flowers for weddings, she expanded 11 years ago into the bridal business. The bridal shop soon surpassed the floral business in size and cash flow, and Hutzler turned her attention full time to managing the new business. Her husband stepped in to operate the family floral shop until he sold it last fall.

What makes Mordecai Bridal stand out from the competition is its sheer size. Hutzler stocks more than 500 wedding gowns in sizes 4 to 24. The most popular dresses cost $700 to $1,000. Over the years, the word has spread across eastern North Carolina that if you can't find what you want elsewhere, try Mordecai.

Although weddings can be glamorous, exciting—and costly, the business people who provide wedding services experience little of the glitz, and they work hard for their income. Successful business owners such as Burnie Batchelor and Emma Hutzler took years to build their reputations and clientele. Clearly, you don't get much of the latter until you establish the former.

For those just starting out, opportunities abound—as Raleigh's new batch of wedding-oriented businesses illustrates. Even if population trends point to a decline in the number of weddings during the 1990s, changing lifestyles will keep overall spending up. Older, well-educated, affluent couples show no sign of curbing their desire for expensive wedding pageantry. NB

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PERSONNEL

Risks For Firms In Civil-Rights Bill

Companies that comply with current anti-discrimination laws could encounter a host of new—and costly—legal challenges.

By Mary McElveen

In the spring and summer, "management" takes on a new meaning for Alec Brindle, who operates nine salmon-processing plants along the Alaska coast from Ketchikan in the east to Bristol Bay farther west.

In May, his work force swells from 125 to more than 1,200 in preparation for the fishing season, which opens in June. And Brindle begins transporting workers primarily from California and Washington state to the cooler Alaskan clime.

His processing plants are in remote areas—many accessible only by boat or airplane—so Brindle houses and feeds his seasonal workers near those operations. He houses them according to job groups—cannery workers, carpenters, construction workers, and machinists—because they typically work different hours. And he sometimes provides different food because a union contract requires his firm, Wards Cove Packing Co., to make Oriental food available to its cannery workers.

In 1973, the cannery workers, whom the company hired directly through the local affiliate of the International Longshoremen's and Warehousemen's Union, alleged that Wards Cove had discriminated in the hiring and promotion of its minority employees.

The cannery workers said that while their union supplied the company's unskilled workers, many of whom were minorities, the company was responsible for making sure its skilled work force included a similar percentage of minorities.

The Supreme Court ruled in the company's favor, holding that the statistical imbalance in the company's job groups alone was not enough to prove discrimination.

Although the nation's highest court ruled in Brindle's favor, his and other employers' management and employment practices face a massive reworking in legislation pending in Congress.

The Civil Rights Act of 1990, introduced by Sen. Edward M. Kennedy, D-Mass., and Rep. Augustus F. Hawkins, D-Calif., would expose companies covered by the nation's civil-rights laws to a whole new round of regulation and litigation.

"This legislation is like the wolf masquerading as grandma and inviting Little Red Riding Hood in for tea," says Sen. Orrin G. Hatch, R-Utah, the leading opponent of the measure in the Senate. Hatch says the bill would be a "powerful engine for reverse discrimination" and a "bonanza for lawyers." He says it is "guaranteed to produce conflict and tension in the workplace."

The measure would reverse or alter six recent Supreme Court decisions on civil-rights matters, including the ruling in Brindle's favor.

In addition, the legislation would expand the remedies currently available under Title VII of the Civil Rights Act of 1964, which prohibits discrimination based on race, color, religion, national origin, and gender.

The Kennedy-Hawkins bill would add punitive damages and compensation for pain and suffering to the existing remedies for victims of discrimination. Courts already may award back pay and benefits, attorneys' fees, and injunctive relief, which typically involves a requirement that the defendant stop a

PHOTO: ©DOUG WILSON—BLACK STAR

Salmon processor *Alec Brindle, president of Wards Cove Packing Co., worries that pending legislation would overturn his Supreme Court victory in a job-discrimination case.*

We're pretty leery of the term "easy to use" around here, but this program fits the bill.

—Ripley Hotch

Thank you, ***Nation's Business,*** **for your great review.**

—Granville Publications Software

Budget Forecasting For The Rest Of Us

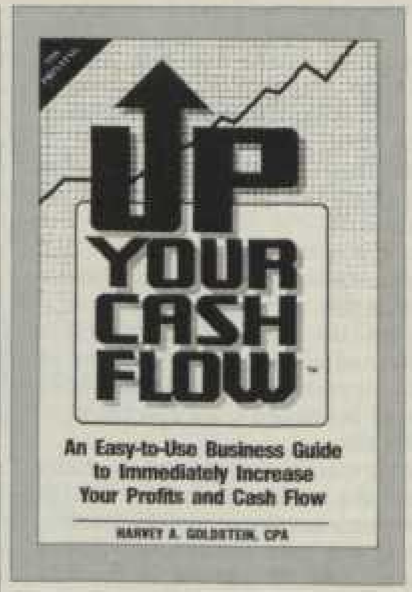
Most small-business people hate fooling with numbers, even though all of them know they should. Budgeting each year becomes haphazard at best, chaotic at worst. Now there is **Up Your Cash Flow,** a no-nonsense program that can give you a real reading of your cash position and budget.

Basically a series of spreadsheets, the program lets you fiddle all you want with projected expenses and sales, playing "what-if" games until the cows come home.

We're pretty leery of the term "easy to use" around here, but this program fits the bill.

You don't need a manual; a simple card tells you how to load it. If you've fooled with computers at all, you don't even need that. After you start the program, you simply follow the menus to fill in your current accounts status and your last year's figures. You can choose to project the new year's budget by any (or all) of several methods: an across-the-board percentage increase, divided evenly or proportionally according to your projected income; or figures of your choice.

Then Up Your Cash Flow calculates spreadsheets and forecasted budgets. The program includes the whole range of expense accounts, including a number of user-defined categories. It will figure loan amortization, payroll, depreciation, payroll taxes, interest expense—anything that is a factor in calculating your cash position.



Up Your Cash Flow includes a book with the same title, in which Harvey Goldstein, who put the program together, explains the budgeting process and urges you to take advantage of the control the program can give you. Up Your Cash Flow runs on an IBM PC or compatibles with DOS 2.0 or higher, 512K RAM and a hard disk, and comes on either 3½-inch or 5¼-inch floppies. Price is $129, plus $5 shipping charge, from Granville Publications Software: 1-800-873-7789.

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Some of Many Benefits...

- Reduce operating costs with better budgetary controls
- Reduce borrowing costs by controlling cash more effectively
- Reduce payroll costs by analyzing payroll more effectively
- Gain greater control over your cash
- Great for "What If" analysis
- Free technical advice
- Prepare more effective business plans
- Save time...no programs to learn or models to build
- Know the financial impact of major cash purchases before you make your final decision
- See the impact on the bottom line of economic changes, in advance
- 30-Day Money Back Guarantee

Some of Many Features...

- No training and no manual
- Not copy protected
- Forecast invested funds, debt repayment, equipment purchases, new borrowings, expenses, payroll taxes, interest expense, depreciation and more
- Print monthly, quarterly and annual totals
- Forecast for as many years as you like
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Expert Opinion

"Unlike many attempted spreadsheet programs, this one is not a lookalike or a feel-alike. It is powerful yet easy enough for the office janitor to use."
PCM

"There really is no manual for Up Your Cash Flow... this is probably the most self-explanatory business program we've run across. Up Your Cash Flow may be the fastest, easiest way to prepare business forecasts."
Executive Computing

"[Up Your Cash Flow] covers the most common needs about as painlessly as something involving numbers can."
The Associated Press

To order "Up Your Cash Flow" software, Call 1-800-873-7789 today, or complete this form and mail $129.95 plus $5 S/H and 6.75% sales tax for CA residents to: Granville Pub. Software, 10960 Wilshire Blvd., Ste. 826, Los Angeles, CA 90024.

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particular practice or take a certain action.

Proponents of the wide-ranging bill include the American Bar Association, the Leadership Conference on Civil Rights, and a variety of women's groups. They say the measure would simply restore civil-rights law to its pre-1989 state.

But opponents, including the Bush administration and a growing number of companies and business organizations, say the legislation is clearly a multifaceted revision and expansion of the employment-discrimination laws that have developed since enactment of the 1964 law.

The legislation "would substantially increase the burdens and risk of liability for every employer in this country, including the most exemplary," James C. Paras, a senior partner in the San Francisco law firm of Morrison & Foerster, told the Senate Labor and Human Resources Committee on behalf of the U.S. Chamber of Commerce.

Brindle, whose company's case goes back to 1973, when eight of its cannery workers filed suit against the family-owned firm, says the legislation "would at best be unfair."

Protecting the Supreme Court's decision in *Wards Cove Packing Co. v. Atonio* is among the greatest concerns of the Justice Department and business groups opposing the pending bill. In *Wards Cove*, the high court held that the burden of proving discrimination is on the individual alleging discrimination. Reversing that decision, as the Kennedy-Hawkins bill would do, would require the employer to prove that every challenged business practice was not discriminatory. Says Hatch, "A large company might have 3,000 business practices and a small company 10 or 20 practices, and, if challenged, they could have to prove that every one of them was not only job-related but 'essential' in proving the practices were not discriminatory."

PHOTO: T. MICHAEL KEZA

This legislation is like the wolf masquerading as grandma and inviting Little Red Riding Hood in for tea.

—Sen. Orrin G. Hatch, R-Utah

Says Nancy Fulco, human-resources attorney for the U.S. Chamber: "Plaintiffs would merely have to demonstrate a statistical imbalance in the employer's work force. Such evidence would successfully create a presumption of discrimination regardless of whether any of the employer's practices had a discriminatory effect or the employer intended to discriminate."

According to Attorney General Dick Thornburgh, the bill would establish standards that would be "impossible" for businesses to meet without adopting "quota hiring and promotion" practices.

In the Wards Cove case, eight unskilled cannery workers, including Frank Atonio, a Samoan, charged that Wards Cove Packing had discriminated in its hiring of skilled workers. They held that because minorities made up 50 percent of the firm's unskilled cannery work force, which cleans and processes salmon, its skilled-worker categories, including carpenters, machinists, and construction workers, should also be 50 percent minorities. Its skilled work force was 24 percent minorities. The relevant labor market was 10 percent minorities.

After a series of lower court battles between Wards Cove Packing and its cannery workers, the Supreme Court held that Wards Cove was not guilty of intentional discrimination and that the statistical differences in minority hiring were caused by the cannery workers' minority-run union.

In its ruling in the company's favor, the Supreme Court set forth these guidelines:

- The individual alleging discrimination must identify the specific employment practices he or she contends are discriminatory. He or she must then establish that each challenged practice has an adverse impact on members of a group protected under the 1964 civil-rights law.
- If the individual establishes that certain practices adversely affect a protected group, the employer must produce evidence that each practice "serves in a significant way the legitimate employment goals of the employer."
- Once an employer has provided reasonable business justifications for the practices, the individual bringing suit could still win by producing evidence of alternative practices that could equally serve the employer's legitimate business interests but have a lesser adverse impact on protected employees.

Attorney Paras says, "The tripartite analysis followed in *Wards Cove* is entirely consistent with prior Supreme Court precedent." On the other hand, the pending legislation, he says, "would place business planners in the dilemma of having to choose between quotas and the legal requirement of proving that each and every aspect of the employment process, in addition to the overall process itself, is not only reasonable and manifestly related to bona fide job requirements but is also 'essential' or indispensable."

Jeff Noah, director of government relations for the Associated Builders and Contractors, explains the *Wards Cove* aspect of the legislation this way: "How can a construction business prove, for example, that training or experience are absolutely 'essential' to a worker's ability to do a job? It can't."

Says Sen. Hatch: "How could the Utah Jazz [basketball team] prove that a 6-foot, 6-inch height requirement is absolutely essential" if it wanted to increase the team's overall height?

The bill's expansion of remedies available to alleged victims of discrimination, including jury trials, "would completely undermine a major goal of Title VII, which is speedy resolution of employment disputes through conciliation and mediation," says the U.S. Chamber's Fulco. "The availability of these damages would provide an irresistible incentive to litigate by both employees and their attorneys," she says. "Employees would be unlikely to accept reasonable pretrial settlement offers if they knew that they could win large damage awards" in court.

In a letter to Senate Labor and Human Resources Committee Chairman Kennedy, Attorney General Thornburgh said he and other senior advisers in the administration would urge the president to veto the bill. He noted that "the administration opposes as inconsistent with equal opportunity any legislation that would encourage quota systems or otherwise divide our society along racial lines." Thornburgh urged

the senator to consider the administration's more restricted approach to recent Supreme Court decisions.

The administration has proposed a substitute measure that would leave *Wards Cove* and three other high court decisions intact. But it would reverse the court's decisions in *Patterson v. McLean Credit Union* and *Lorance v. AT&T Technologies Inc.*

In *Patterson*, the court held that Section 1981 of Title 42 of the U.S. Code prohibits discrimination only in hiring, not subsequent on-the-job activity. Both the administration bill and the Kennedy-Hawkins measure would clarify that Section 1981 covers all aspects of a job relationship.

In *Lorance*, the court held that workers who think a seniority system is discriminatory must file suit within 180 days after the system is *established*. Under the Kennedy-Hawkins bill, the period would be extended to two years and would begin when an individual is adversely affected by the system.

The administration's bill does not extend the 180-day limit but provides greater latitude for filing suit. It would start the 180-day period when a discriminatory system was adopted, when an employee became subject to the system, or when he or she was injured by it.

In testimony against extending the time for filing suit, attorney Paras said: "Title VII's 180-day limitations period has served both employers and employees well for over 25 years. The same 180-day rule applies under the National Labor Relations Act and has succeeded in protecting employee rights under that act for more than 50 years. We are aware of no public outcry or need for a change in Title VII's statute of limitations."

Like the business community, the administration strongly objects to the legislation's provisions to alter the Supreme Court's ruling in *Price Waterhouse v. Hopkins*. In that case, the court held that an employer could defend a discriminatory employment decision if he or she could prove that the same decision would have been made had the impermissible factor not entered into the decision.

The court ruled against the company and in favor of a woman who alleged she had been denied partnership by the accounting firm because of her gender. The court held that once the woman had established by direct evidence that gender played a substantial part in the decision, the burden shifted to the employer to show that it would have reached the same decision had gender not been considered.

The Kennedy-Hawkins legislation would make employers liable for intentional discrimination even if the same decision would have been made for nondiscriminatory reasons.

Says Hatch, "This would be the first instance ever where a person could be found guilty for thinking bad thoughts."

PHOTO: T. MICHAEL KEZA

Sen. Edward M. Kennedy, D-Mass., is pushing for quick action on a bill that would reverse or alter six Supreme Court decisions.

The other Supreme Court decisions that would be altered by the Kennedy-Hawkins bill are *Independent Federation of Flight Attendants v. Zipes* and *Martin v. Wilks*. The flight-attendants decision barred successful plaintiffs from obtaining attorneys' fees for the defense of third parties who become involved in a lawsuit after it is filed. The Kennedy-Hawkins bill would allow successful plaintiffs to obtain such fees.

The court's decision in *Martin v. Wilks* allowed court-approved affirmative-action plans to be challenged later by individuals affected by a consent decree even if they did not protest at the time the matter was being negotiated. The Kennedy-Hawkins measure would make consent decrees final, provided that all potentially affected parties were given adequate notice that a court order was being negotiated.

Fulco says the administration's veto threat is encouraging for business. Nonetheless, opponents are worried that the bill will move through Congress before many U.S. companies, particularly smaller firms, have had a chance to assess its likely impact or, in many cases, be made aware of its existence.

Noah of the Associated Builders and Contractors says, "We're afraid that by the time our members are aware, it will be too late."

The bill, which was introduced Feb. 7, cleared the Senate Labor and Human Resources Committee April 4, and Kennedy started pushing for a vote by the full Senate as soon as possible. The House measure was cleared by the Education and Labor Committee in early May and was ready for a floor vote.

The bill's proponents are particularly eager to see votes before the November elections, when all 435 House seats and about one-third of the Senate's seats will be open. Supporters could use votes against a civil-rights bill to their political advantage.

"Intense opposition is needed to slow the legislation," Fulco says. "Once employers understand the implications of this measure, we're confident they'll send their legislators a message of opposition that's loud and clear." NB

PERSONNEL

After You Hire A La Carte

Keep independent contractors at arm's length to avoid payroll-tax troubles. Here are tips for sidestepping ties that bind.

By Stuart Duhl

When companies need additional personnel, they don't necessarily add full-time staff members or part-time employees. Many, particularly start-up and still-small concerns, prefer to purchase employees' services a la carte—by hiring independent contractors or free-lance workers as needed.

But thousands of those companies could be on a collision course with the Internal Revenue Service, which has launched an aggressive new campaign on this issue. The agency says that many workers identified as independent contractors should be classified as employees, and their employers could owe billions of dollars in back payroll taxes and interest.

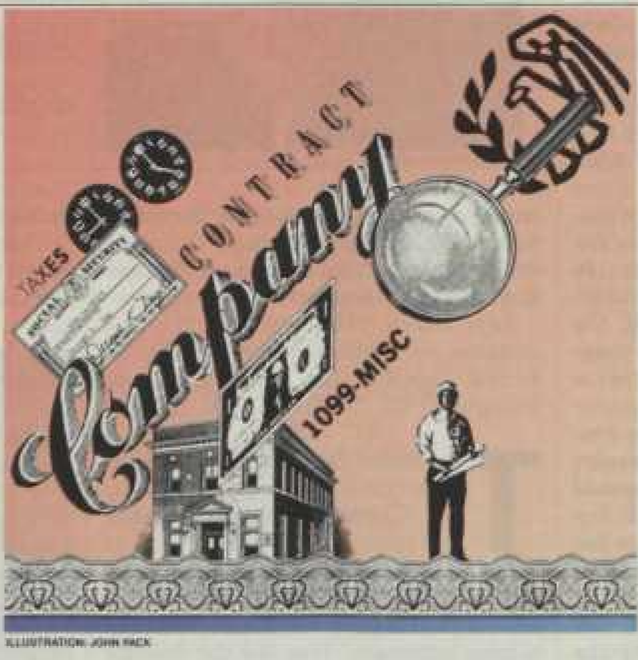

ILLUSTRATION: JOHN PACK

Businesses turn to independent contractors because they believe such arrangements offer flexibility and cost efficiency. The workers' services are limited to a specific project or period. The hiring company pays a flat fee to the contractors, who are responsible for their own Social Security and other payments, which include workers' compensation, disability pay, unemployment insurance, and benefits such as health care.

The IRS sees a double problem: Employers avoid tax payments through invalid independent-contractor arrangements, and the workers take tax deductions not available to regular employees. The IRS says that misuse of the independent-contractor status is costing the government as much as $8 billion a year. The agency has assigned more than 300 collection officers to audit companies listing payments to independent contractors.

The IRS uses several criteria to determine whether a worker is an employee or an independent contractor. If you face the question of whether the IRS would classify your workers as independents or regular employees, you should ask these questions about them:

Control: Are they required to comply with instructions about when, where, and how to work? Do they perform services for more than one employer?

Exclusivity: Are they restricted from providing their services to other companies on the same basis that you are purchasing them?

Facilities: Do they perform their duties at the employer's plant or office? Do they use tools and other facilities furnished or financed by the employer?

Training: Does the hiring firm train the workers?

Risk: Do the workers share in the company's profits or losses?

Dismissal: Can the workers be fired?

If you answer yes to any of these questions in regard to workers you have classified as independent contractors, you should take a closer look at that designation.

But don't go too far in the other direction by rejecting use of such contractors when you have a legitimate need for them. These guidelines will provide a strong response to any IRS challenge:

- Contract only with established individuals who invoice you for services rendered.
- Have a written agreement stipulating the nature and duration of the work by your independent contractors.
- File Federal Tax Form 1099-MISC to report payments to independent contractors. This is mandatory if the payment to an individual exceeds $600 for a calendar year.
- Obtain and familiarize yourself with IRS regulation 31.3121 (d)-1 and IRS Manual Exhibit 4640-1, which provide extensive detail on the tests for determining worker status. You should also be familiar with IRS Form SS-8, which is used for providing sufficient information for the IRS to determine whether a worker is an employee or a contractor.

Even if your business is challenged by the IRS, you should be aware that Congress has provided possible relief for all or a portion of back taxes and penalties. Under Section 530 of the Revenue Act of 1978, a worker would not be considered an employee for any period in which the company did not treat that individual as an employee. That provision would not apply, however, if the company had no reasonable basis for not treating the individual as an employee. Moreover, relief is available only if all federal tax returns filed by the company with respect to the worker are consistent with the worker's status as a nonemployee.

Section 530 offers several alternative standards that create safe havens in classifying a worker as a nonemployee. One is judicial precedent or published rulings that a specific worker is in fact an independent contractor or that use of independent contractors is permitted under the existing circumstances. Another is a past IRS audit that identified workers as independent; their status cannot be challenged later by the IRS. Still another exception is existence of a long-standing, recognized practice of a significant segment of a given industry.

Hiring independent contractors and freelancers is a cost-efficient way for many firms to add workers, but those companies must adhere to IRS regulations—or face the financial consequences. **NB**

Stuart Duhl is an attorney with the Chicago law firm of Schwartz & Freeman.

To order reprints of this article, see Page 76.

INTERNATIONAL TRADE

More Progress In East-West Trade

A landmark trade agreement provides immediate assistance to U.S. firms seeking deals in Czechoslovakia.

By Albert G. Holzinger

Business opportunities in Czechoslovakia could increase dramatically for U.S. firms as the result of a landmark bilateral trade agreement signed recently in Washington, D.C. The agreement, the first between the governments of the U.S. and an East European nation since the region's Communist regimes were swept out of power last year, "is an important and a vital first step on the road to making Czechoslovakia a more attractive place for Americans to trade and invest," U.S. Trade Representative Carla A. Hills said in signing the pact on behalf of the U.S.

The agreement, expected to gain quick approval from the U.S. Congress, contains tariff and other provisions that will immediately benefit many U.S. firms seeking to negotiate deals in Czechoslovakia.

The signing of the agreement was the highlight of a two-day symposium at the U.S. Chamber of Commerce entitled "Doing Business In Eastern Europe and the Soviet Union." (See "Forging Trade Ties In Eastern Europe," on Page 34.)

U.S. Trade Representative Hills selected the Chamber event for the signing ceremony in recognition of the business federation's longstanding efforts to advance political freedom and market economics through East-West trade. For example, the Chamber has maintained a bilateral economic council seeking to foster free enterprise in Czechoslovakia since the mid-1970s.

The trade agreement—in conjunction with a decision made in February by President Bush on a provision of a 1974 trade law—will permit goods produced in Czechoslovakia to enter the U.S. at most-favored-nation (MFN) tariff rates—those established for America's preferred trading partners. Among other things, the lower rates will make barter deals more attractive.

While Czechoslovakia's hard-currency reserves are larger than those of other East European countries, American firms still may find it easier to strike deals if they will accept Czech-made goods as payment in lieu of cash. Under these arrangements, the U.S. companies can sell these goods to a barter firm or import them and sell them to U.S. consumers. These barter deals will be more profitable now because big savings will accrue from lower U.S. import duties.

PHOTO: © AL STEPHENSON

A handshake *between U.S. Trade Representative Carla A. Hills and Czechoslovak Foreign Trade Minister Andrej Barcak seals a trade pact signed at the U.S. Chamber of Commerce. With Hills is staff member Michael Brownrigg.*

The trade agreement could not have extended MFN rates to Czechoslovakia if President Bush had not decided to waive the 1974 Jackson-Vanik amendment to U.S. trade law as it applied to that nation.

This amendment denies trade preferences to Communist nations that restrict their citizens' right to emigrate. Czechoslovakia has not liberalized its emigration laws yet, but its new president, Vaclav Havel, has assured President Bush that changes will follow the parliamentary elections in Czechoslovakia in June.

Even American firms with no interest in bartering their goods or services will benefit from the new trade agreement. Some other key provisions of the pact would:

- Permit U.S. firms to open bank accounts in Czechoslovakia and pay for needed goods and services with Czech currency, the koruna.
- Guarantee that hard-currency earnings of U.S. enterprises can be repatriated immediately.
- Commit Czechoslovakia to strengthening its protections on patents, copyrights, trademarks, integrated-circuit designs, and other intellectual property.
- Grant a number of rights to U.S. companies that will make it easier for them to do business in Czechoslovakia. These include the right to advertise, to contact potential customers di-

rectly, and to engage agents and distributors.

"The trade agreement clearly provides a number of useful opportunities for U.S. companies wishing to set up operations in Czechoslovakia," says Donald J. Hasfurther, vice president of NPD Trading (USA) Inc., an East European trade-consulting firm based in Washington, D.C. For example, the agreement has allowed NPD Trading to lease an office in Prague and staff it with highly qualified Czech nationals attracted by what Hasfurther calls "employment incentives."

"There are signs already that U.S. business activity in Czechoslovakia has picked up significantly" in the wake of the treaty signing, says Hasfurther, who recently returned from Prague. "There are a lot of U.S. business representatives there right now, which was certainly not the case a year ago or even a few months ago."

PHOTO: ©AL STEPHENSON

The U.S. private sector must do the most to help Czechoslovakia.

—Andrej Barcak

American interest in trade with Czechoslovakia stems from the view of many experts that of all the nations in Eastern Europe, Czechoslovakia may have the best long-term structural potential for commerce with the U.S.

Czechoslovakia, which is about the size of New York state, has approximately 15.5 million people. The per-capita share of the gross national product in Czechoslovakia averages a little over $10,000, according to the U.S. Department of State. In comparison, in Poland, the per-capita share of GNP is about $7,250, and in Hungary it is about $2,500. According to the U.S. Department of Commerce, Czechoslovakia's foreign debt, about $7 billion, is the second-lowest in Eastern Europe, exceeding only Romania's negligible debt.

Czechoslovakia was created from the breakup of the Austro-Hungarian Empire in 1918, and it was the only East European country to maintain a parliamentary democracy between the two World Wars. Before the Communist takeover after World War II, Czechoslovakia was the most technologically advanced country of the region. The consensus among regional experts is that even 40 years of Communist political rule and central economic planning did not eradicate the Czechs' political and industrial know-how. Nonetheless, Czechoslovakia has a long way to go in regaining its democratic and economic vibrancy. "Practical things and attitudes still are missing in Czechoslovakia right now," admits Andrej Barcak, Czechoslovakia's minister of foreign trade. "A full-scale democracy and a market economy are our goals" following a transition period lasting no more than two to three years, he says.

"The American administration is doing a lot" to help Czechoslovakia achieve these goals, says Barcak, who signed the bilateral trade agreement for the government of President Havel, "but it is up to the private sector to do the most."

Major help from the private sector includes that of the U.S. Chamber of Commerce.

The Chamber's President Richard L. Lesher met in Prague last fall with officials of the Czech government and the Communist Party, Czech business leaders, and students of the Prague University of Economics.

A month later, violent suppression of student demonstrators prompted a gen-

Forging Trade Ties In Eastern Europe

The kickoff event of the new East European Trade and Technical Assistance Center (EETTAC) of the U.S. Chamber of Commerce showed that U.S. companies are intensely interested in exploring business opportunities in the region.

The two-day symposium, "Doing Business in Eastern Europe and the Soviet Union," drew more than 300 executives from American businesses of all sizes and all industries to the Chamber recently, and an additional 50 requests for reservations had to be turned down because of space limitations.

Symposium participants included experts in international trade and finance from the Chamber and the U.S. government; senior officials of Bulgaria, the German Democratic Republic, Hungary, and the Soviet Union; and the trade ministers of Czechoslovakia, Poland, and Romania.

The event, co-sponsored by the U.S. Department of Commerce, marked the first time that American business representatives were able to meet with the policy makers of the U.S. and Eastern Europe to discuss trade and investment opportunities and problems.

The symposium presented "a unique opportunity for companies to get a clearer picture of the changing political and investment climate in the region, beyond the headlines," says William T. Archey, the Chamber's vice president in charge of its International Division.

EETTAC is the Chamber's response to the flood of requests for advice and assistance from officials of the new East European democracies as well as from the business federation's member firms.

Archey says the Chamber has been receiving up to 100 phone calls a day from companies—many of them small firms—requesting information on doing business in Eastern Europe.

EETTAC's services for firms considering trade or investment in the Soviet Union or Eastern Europe include:

- Providing materials essential to business transactions, including analyses of economic and business conditions, commercial laws, and financing options.
- Sponsoring trade and investment missions and conducting seminars featuring high-level officials from the U.S. and Eastern Europe such as the just-concluded symposium.
- Lobbying the U.S. government to ease restrictions on trade and investment in Eastern Europe such as controls on advanced-technology exports.

EETTAC and another Chamber affiliate, the Center for International Private Enterprise, also will provide the Soviet and East European governments and business communities with expert technical advice on sustaining their current market-economic reforms and formulating new ones.

For information on EETTAC, call (202) 463-5474.

eral strike in support of free elections and political pluralism.

Consequently, elections were held in December, and former political prisoner Vaclav Havel became Czechoslovakia's first non-Communist head of state since 1948.

Subsequently, officials of the Center for International Private Enterprise (CIPE), an organization affiliated with the Chamber, visited Prague to consider selective funding for the country's emerging private business sector.

Lesher explains these and other of his organization's efforts in Eastern Europe this way: "These nations have been set free virtually overnight, but they are ill-equipped to exploit their sudden good fortune. Exporting capitalism there is something that needs to be done, and the Chamber knows how to do it."

In helping Czechoslovakia meet its goals, the U.S. private sector also will be opening new markets for American goods and services.

Shelley Galbraith, a U.S. Commerce Department expert on Eastern Europe, estimates that Czechoslovakia represents a market of about $4 billion for goods produced in the West. If even a fraction of that trade potential were realized by U.S. companies, there would be an enormous jump in American business activity in Czechoslovakia, up from the approximately $54 million in goods exported by American firms in 1989 and the roughly $87 million in Czech products imported into the U.S. that year.

In helping Czechoslovakia meet its goals, the U.S. private sector also will be opening new markets for American goods.

Trade between the two countries in recent times has been limited largely to Czech imports of hides and skins, fibers and fabrics, tobacco products, machinery, and measuring and laboratory instruments, says Galbraith, and U.S. imports have been mainly tractors, glassware, textiles, and footwear. "However, reciprocal MFN tariffs can be expected to broaden the range of products exchanged between the two countries," she says.

The best new trade and investment opportunities for U.S. firms are in the shoe, glass, and some other light manufacturing industries "favored by government at this time," according to Barcak, the Czech trade minister. "Lots of opportunities also exist in the services sectors," he adds.

The Commerce Department hopes to help U.S. firms identify those opportunities in Czechoslovakia through a variety of programs. Commerce plans to open a Foreign Commercial Service office in Prague in late summer.

In addition, it is planning trade missions to Czechoslovakia this year for American manufacturers of products for the telecommunications, food processing and packaging, environmental, and pollution-control industries. The Commerce Department also will sponsor a U.S. exhibit at the Brno International Engineering Fair, Sept. 12-19.

For more information, call the Eastern Europe Business Information Center at the Department of Commerce, (202) 377-2645. NB

INTERNATIONAL TRADE

Ten Common Mistakes Of Potential Exporters

By Roger E. Axtell

In Meredith Willson's classic musical, *The Music Man*, the opening scene takes place aboard a 1920s train crossing the flatlands of Iowa. The first musical number is sung by a group of traveling salesmen, called *drummers* in those days. Their musical message is that to be a truly successful salesman, "You gotta know the territory!" The lead singer is a salesman of anvils. Imagine, if you will, a more challenging assignment than selling anvils.

Selling in the overseas market is, assuredly, easier than selling anvils across the Middle West in the 1920s, but the admonition "you gotta know the territory" still applies.

If there is one cardinal rule that all experienced international managers agree upon, it is this: There is no substitute for getting out into the marketplace. One veteran calls it "foot-slogging," a British term that means "to trudge like an infantryman," implying that in sales there is no alternative to slogging through the mud, water, and wastelands in search of sales.

For a potential exporter, the first trip abroad can be extremely significant. Lifelong relationships can develop from this first sortie overseas. Steady, growing sales can result, or, if the distributor selection was ill-advised, a steady stream of headaches and problems. It is worth the time you take for very careful preparation and planning.

Here, as compiled by the U.S. Department of Commerce, are the 10 most common general mistakes of potential exporters.

ILLUSTRATIONS: JERRY DADDS—EUCALYPTUS TREE STUDIOS

Define your goals *and the problems you face, and develop a definitive plan to accomplish your objectives.*

1. Failure to obtain qualified export counseling and to develop a master international marketing plan before starting an export business. To be successful, you must first clearly define your goals, objectives, and the problems you face. Second, you must develop a definitive plan to accomplish your objectives despite the problems involved.

Unless you are fortunate enough to possess a staff with considerable export expertise, you will not be able to take this crucial first step without qualified outside guidance.

2. Insufficient commitment by top management to overcome the initial difficulties and financial requirements of exporting. It may take more time and effort to establish yourself in a foreign market than in domestic ones. Although the early delays and costs involved in exporting may seem difficult to justify when compared to your established domestic trade, you should take a long-range view of this process and shepherd your international marketing efforts through these early difficulties. If you have laid a good foundation for your export business, the benefits derived should eventually outweigh your investment.

3. Insufficient care in selecting foreign distributors. The selection of each foreign distributor is crucial. The complications involved in overseas communications and transportation require international distributors to act with greater independence than their domestic counterparts.

Also, since a new exporter's history, trademarks, and reputation are usually unknown in the foreign market, the foreign customers will buy on the strength of the distributor's reputation. You should therefore conduct a personal evaluation of the personnel handling your account, the distributor's facilities, and the management methods employed.

4. Chasing orders from around the world instead of establishing a basis for profitable operations and orderly growth. If you expect distributors to actively promote your account, they must be trained and assisted, and their performance must be continually monitored.

This requires a company marketing executive to either visit the distributor often or, at a later stage, perhaps even be permanently located in the distributor's geographical region. Therefore,

If you want to create a market for your product overseas, remember the cardinal rule: There is no substitute for getting to know the territory.

new exporters should concentrate their efforts in one or two geographical areas until there is sufficient business to support an assigned representative. Then, while this initial core area is expanded, the exporter can move into the next selected geographical area.

5. Neglecting export business when the U.S. market booms. Too many companies turn to exporting when business falls off in the United States. When domestic business starts to boom again, they neglect their export trade or relegate it to a secondary place.

Such neglect can seriously harm the business and motivation of their overseas representatives, strangling their own export trade and leaving them without recourse when domestic business falls off once more. Even if domestic business remains strong, they may eventually realize that they have only succeeded in shutting off a valuable source of additional profits.

6. Failure to treat international distributors on an equal basis with domestic counterparts. Often, companies carry out institutional advertising campaigns, special discount offers, sales-incentive programs, special credit term programs, warranty offers, etc., in the U.S. market but fail to make similar assistance available to their international distributors. This is a mistake that can destroy the vitality of your overseas marketing efforts.

7. Unwillingness to modify products to meet regulations or cultural preferences of other countries. Local safety and security codes, as well as import restrictions, cannot be ignored by foreign distributors. If necessary modifications are not made at the factory, the distributor must do them—usually at greater cost and perhaps not as well.

It should also be noted that the resulting smaller profit margin makes the account less attractive to the distributor.

8. Failure to print services and warranty messages in locally understood languages. Although your distributor's top management may speak English, it is unlikely that all sales personnel (let alone service personnel) will have this capability. Without a clear understanding of sales messages or service instructions, these personnel will be less effective in performing their functions.

For common languages like Spanish, French, and German, good translation services are readily available in the United States. However, for less common languages like Thai or Finnish or Dutch, your distributor can provide that extra service.

Language barriers *can hurt your sales. Make sure your sales messages and service instructions are translated for foreign markets.*

9. Failure to consider use of an export-management company. If a firm decides it cannot afford its own export department (or has tried one unsuccessfully), it should consider the possibility of appointing an appropriate export-management company.

10. Failure to consider licensing or joint-venture agreements. Import restrictions in some countries, insufficient personnel and financial resources, or a too-limited product line cause many companies to dismiss international marketing as simply not feasible. Yet nearly any product that can compete on a national basis in the U.S. can be successfully marketed in most markets of the world.

A licensing or joint-venture arrangement may be the simple, profitable answer to your reservations.

In general, all that is needed for success is flexibility in using the proper combination of marketing techniques. **NB**

Roger E. Axtell is a former vice president of worldwide marketing for the Parker Pen Co. This article was excerpted from his book The Do's And Taboos Of International Trade: A Small Business Primer. *Copyright (c) 1989 by Roger E. Axtell. Reprinted by permission of John Wiley & Sons, Inc. To order the book, call the publisher at (212) 850-6412.*

LESSONS OF LEADERSHIP

A Strategy For Growth

As the U.S. Chamber's new chairman, James K. Baker is encouraging American business people to compete aggressively at home and abroad.

By Albert G. Holzinger

The character of Columbus, Ind., has changed little since 1955, the year James K. Baker came to town as a divisional sales manager for Arvin Industries Inc. Columbus, nestled in farm country 40 miles southeast of Indianapolis, is a city of 30,000 where homes still have porch swings, most people shop in small stores, and the tree-lined streets are free of traffic congestion.

In contrast, Arvin has changed vastly in the 35 years since Baker joined the firm just out of the U.S. Army. In the mid-1950s, Arvin was engaged in several businesses. A principal one was selling about $30 million a year of new-car parts to the Big Three U.S. automakers—Chrysler, Ford, and General Motors. All of Arvin's products were manufactured by the company's 3,300 employees in Indiana.

Arvin expects revenues from sales of new and replacement auto parts to exceed $1 billion this year. Those parts are sold in more than 100 countries.

Arvin still employs about 3,300 people in its Indiana manufacturing plants, but it also has about 15,000 employees in plants in 16 foreign nations.

Much of Arvin's emergence as an automotive-parts manufacturer of worldwide scope has come since 1981, when Baker was named the firm's chairman and chief executive officer. Consequently, Baker will be speaking from personal experience as he travels throughout America as chairman of the U.S. Chamber of Commerce for 1990-91. In that role, he will encourage U.S. business people to compete aggressively with foreign companies for sales in the U.S. and abroad.

Baker assumed the top elected post of the world's largest business federation at the Chamber's recent annual meeting in Washington, D.C., succeeding John L. Clendenin, chairman and chief executive officer of BellSouth Corp.

PHOTO: T. MICHAEL KEZA

Baker, 58, is a soft-spoken man. His reserved, measured manner reflects his Indiana upbringing: He was born in Wabash, attended high school in nearby Indianapolis, and received a bachelor's degree in physics and mathematics from DePauw University in Greencastle. He ventured out of Indiana to earn an M.B.A. from Harvard University.

PHOTO: T. MICHAEL KEZA

James K. Baker, *chairman and CEO of Arvin Industries and 1990-91 chairman of the U.S. Chamber of Commerce, urges education reforms that will keep America globally competitive.*

Using his science and management skills, Baker worked his way up through the management ranks at Arvin, and all the while he was watching the global business landscape change.

In the years following World War II, the Big Three automakers of Detroit were the kings of the road, and auto-parts companies such as Arvin could grow and prosper merely by supplying manufacturers with technologically up-to-date products.

But as the auto-parts industries of Europe and the Far East began developing, foreign competition began springing up for U.S. automobile manufacturers as well as for suppliers such as Arvin. By the time Baker assumed day-to-day control of Arvin in 1981, it was apparent that the company's competition and its growth potential were largely outside the U.S.

"We knew how to make money in auto parts, and we wanted to continue to support General Motors, Ford, and Chrysler here, but the U.S. and Canada were only 25 percent of the world market, and we wanted to support other markets too," Baker says. "We adopted an attitude that America is but one player on a field that encompasses the entire world and planned our strategies accordingly."

A major component of Arvin's successful growth strategy has involved acquisition of some established foreign firms and joint ventures with others. For example, in 1985 Arvin acquired Schrader Automotive, a tire-valve maker with about $80 million in sales in about 125 countries—a world-market share of about 30 percent. A year later, Arvin purchased Maremont Corp., maker of suspension and exhaust systems, a company with substantial sales in Europe and Mexico.

Despite Arvin's tremendous growth in recent years, Baker has insisted that the size of the company's corpo-

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rate staff remain lean. It now numbers about 40 employees, and no more than four layers of management separate division presidents from factory workers anywhere in the world.

Nonetheless, even a rapidly increasing sales base and a compact management structure did not protect Arvin from competition problems that presented tough choices during the late 1980s. In 1986 and 1987, about 350 new auto-parts plants—some of them foreign companies—sprang up in the Midwest. Wages in those plants averaged $6 to $8 an hour. Arvin automotive-products plants in the region—plants that were at least 40 years old—were covered by labor agreements calling for wages of $9 to $12.50 an hour. The firm's options were clear: shut down its Midwest plants and relocate to lower-cost areas, or urge employees to take significant wage cuts. Employees grudgingly accepted the cuts. Management did its part too, with Baker and other top-level executives of Arvin accepting reduced compensation. Consequently, says Baker, "new business began to flow into those plants."

Baker says Arvin's foreign and domestic restructuring is largely completed now, and "new products are expected to be major contributors to future growth we believe will average 12 percent a year."

These new products will flow from the company's strong commitment to research and development. "It is clear to us that world-class companies must have a strong technology base," Baker says. To assure itself of this base, Arvin employs approximately 3,000 scientists, engineers, and technicians working in 14 regional technical centers. These people are involved in a wide range of research projects, says Baker, "from developing high-tech auto components to improving auto safety to researching new materials for tomorrow's products."

One result of Arvin's research efforts, a product to be on the market soon, is an electronic tire-pressure display for automobile instrument panels.

Arvin has sold its products in Japan for 25 years. It also supplies the U.S. operations of several Japanese automakers through an Indiana-based joint venture with a Japanese firm, Sango Ltd. Because of his experience in dealing with the Japanese, Baker says, American business people frequently ask him why Japan seems to outperform the U.S. in international trade. Many of the reasons, Baker replies, are cultural. "For example, if you or I won

PHOTO: T. MICHAEL KEZA

The strategy *that James Baker designed for Arvin Industries steered the company to worldwide auto-parts sales of $1 billion a year.*

a lottery, we would go out and buy the fanciest car we could think of, and it might be German or Japanese," Baker says. "If the same thing happened to a Japanese person, he would go out and buy a Toyota or a Nissan or a Honda. [The Japanese] are instructed at a very early age that Japan—not family or church—is the most important thing in their life. We don't have that strong nationalistic feeling," so Americans are more inclined to buy foreign products.

"Also, Americans receive virtually no instruction in school on the value of international trade, specifically on the value of exporting," Baker says. In contrast, the Japanese are taught this lesson at a young age.

Trade is not the only area of U.S. education where Baker sees a need for improvement. In fact, he is concerned about the general state of U.S. education offered in grades kindergarten through 12. "We still have the best university educational system of any country in the world," Baker says, "but K-through-12 education is an underlying problem on which we must make more than incremental progress if we expect to remain competitive in today's high-technology global workplace."

Baker explains: "In 1958, Arvin hired employees right out of high school. Now, most production jobs require two years of post-high-school study. If test performance scores continue to languish and drop-out rates continue to increase and illiteracy continues to plague us and schools continue to be confronted by the problems of drugs, violence, and teen pregnancy, how can U.S. companies expect to compete on a global level with businesses from nations such as Japan for whom education is the No. 1 priority?"

Baker acknowledges that America's education problem is "a difficult one, and it's difficult to know what part of the equation needs to be changed." Nonetheless, Baker offers this solution: "Develop educational programs for those young people who are not otherwise motivated that . . . provide them with a clearly identifiable career path that matches their skills. Use available business resources to expose these kids to various kinds of manufacturing and technical jobs that they can aspire to for their lifetime work." Aspiring to these jobs, Baker says, will make it clear to students what it takes to gain employment in them: high-school and post-secondary training.

Baker also sees the government at several levels as a handicap to America's ability to compete in world markets. "All over the world, we see people throwing socialism out," he says. "There's only one group of people that hasn't decided to do the same, and that's the U.S. Congress." Baker's reference is to efforts in Congress to saddle business with social-welfare programs that Washington cannot afford, including parental-leave requirements and universal health-insurance coverage.

Baker explains: "The trend is for lawmakers to say, 'Let's pass on some programs to corporate America and tell it to fund them out of revenue from customers.' Right now, corporate America is scrambling to be competitive in the marketplace, so the timing for Washington to be mandating benefits is very poor."

Baker will devote many of his addresses as U.S. Chamber chairman to public-policy issues affecting business, and his overall message is decidedly upbeat: "Five years ago, the challenge to American business was to be either a low-cost producer or a high-quality, high-technology producer. Today, the challenge is to be both, and that is a very difficult challenge indeed. Nevertheless, I think that challenge is being met by American manufacturers today one product at a time and one customer at a time in markets around the world." NB

KOREA

Last year was special to the U.S.-Korea trade relationship. The two countries worked constructively and cooperatively through several trade agreements to bring the U.S.-Korea trade relationship back on a promising track. The success of these mutual efforts has been reflected in significantly enhanced mutual understanding, as well as in the remarkable reduction in Korea's trade surplus with the U.S.

In this age of unprecedented international interdependence, the need for responsive and responsible trade partnerships is ever greater. The U.S. has long promoted such partnerships among countries, where both partners benefit fairly and meaningfully, and U.S. efforts have accelerated with the emergence of its large trade deficits. Korea wholeheartedly agrees with America's goals and is committed to forming such a partnership.

Korea's responsible approach to international trade has not been limited to bilateral issues. Its multilateral initiatives have been spontaneous, constructive, and cooperative as well.

In the General Agreement on Tariffs and Trade (GATT), Korea set a model by becoming the first developing country ever to voluntarily disinvoke Article 18, Clause B of the GATT, which allows import restrictions based on balance-of-payments reasons. Korea's move has been hailed by the world trade community. Korea also made a number of constructive proposals designed to further liberalize the international trade regime, including one designed to prevent the proliferation of restrictive anti-dumping rules. In addition, Korea supported important U.S. initiatives, such as bringing services and intellectual-property-rights protection within the purview of the GATT.

Outside the GATT, Korea actively supports the Asian-Pacific regional economic-cooperation program, which includes the U.S., Korea, and 10 other countries. Korea has also bolstered its system to monitor exports of sensitive products that might have military potential.

Finally, Korea has continued its policy of encouraging its citizens to buy from abroad, particularly from the U.S. For this purpose, Korea has implemented many successful and effective programs, including import-related loan programs.

The improvement in Korea's economic strength in the mid-1980s happened to coincide with the rapid growth of the U.S. trade deficit and led to certain bilateral disagreements as to the pace of Korea's market liberalization. As the U.S. intensified demands for a more rapid opening of Korea's market, which Korea, for structural and political reasons, could not immediately accommodate, a certain perception began

Textiles for sale *at a store in Seoul.*

The Magic Castle *in Yongin Farmland.*

A Korean artisan *paints in his shop.*

In a country where hepatitis is not only common but frequently fatal, an Indian woman has received a vaccination that prevents it. The Hepaccin B vaccine was mass-produced and exported to her country by Samsung.

A businessman in Belgium can send and receive data and information via the most advanced telecommunications system in the world. It was made possible by an exchange of technology and equipment between his country and Samsung.

Last year, a major U.S. consumer advocate publication conducted a survey comparing 14 brands of microwave ovens. The results: When a grandmother from Pittsburgh bought a Samsung, she bought the most reliable microwave oven made.

On February 14, 1989, a Hungarian engineer and 19 fellow countrymen began an intensive technical training program sponsored by Samsung. Our commitment to exchanging technology has also aided development in Malaysia, Pakistan, India and Egypt.

In 205 locations around the world, we're doing what we've done in our own country of Korea for the past fifty-two years. Applying technology to make seemingly impossible dreams come true.

SAMSUNG

Technology that works for all of us.

KOREA

to develop in America of Korea as an unfair trader. Korea, on the other hand, which had just emerged from decades of trade deficits, perceived some of the U.S. demands as premature or unfair. This feeling contributed to the then-emerging anti-American sentiments in Korea. Thus, by early 1989, the two countries' conflicting perceptions about each other were creating considerable strains and were raising serious concerns about the future of the bilateral trade relationship.

At this critical juncture came the Super 301 Accords. Under the accords, reached in May 1989, the U.S. agreed not to name Korea as a chronically unfair trader under that section of the Omnibus Trade and Competitiveness Act of 1988. Korea agreed, despite unstable political and social circumstances, to undertake further major market-opening measures, which included commitments to:

- Overhaul its system of approval of foreign-investment projects.
- Accelerate its liberalization of the sensitive agricultural sector.

The Super 301 Accords were a historic event that decisively reversed the deteriorating perceptions and trends in the bilateral trade relationship. The accords did so by sending a clear message to Americans that Korea is a responsible international player, while sending a message to Korea that the U.S. is not an unreasonable superpower. Korea has been faithfully living up to the accords, implementing significant portions of the accords so far, with much more in the pipeline this year.

The Super 301 Accords were only the beginning of a series of important agreements reached last year that brought bilateral trade relations back on a promising track. Examples of these understandings include the following:

- In recognition of Korea's firm commitment to protect intellectual-property rights (IPR) manifested by a fundamental overhaul of its legal system and vigorous enforcement efforts, the U.S. last November removed Korea from the Special 301 priority list of countries with which the U.S. had IPR-related concerns.
- Over objections of the Korean steel industry, Korea also renewed its Voluntary Restraint Agreement (VRA) with the U.S. for another 2 1/2 years, in support of President Bush's decision to grant the U.S. steel industry time to further solidify its already much improved industrial position.
- Another bilateral agreement, designed to limit Korea's textile exports to

Ssangyong Oil's *Onsan Industrial Complex features world-class refining facilities.*

the U.S., was renewed last year for the seventh time in the last two decades.

- Out of its commitment to environmental objectives, and overcoming the sensitive nationalistic pride of Korean fishermen, Korea reached agreements with the U.S., imposing specific limitations on the activities of Korean fishing vessels that use drift nets that may trap rare aquatic species in danger of extinction.

Even in the best of relationships, disagreements can arise, especially when the relationship is as diverse and complex as between these two countries, covering virtually all conceivable sectors and amounting to some $36 billion in bilateral volume.

KOREA

For each of the following issues, there exist compelling constraints on the ability of the Korean government to take the immediate actions that the U.S. has requested. Nevertheless, the Korean government already has taken, or plans to take, significant action in each of these areas. Korea is confident that all of these issues will be resolved in an amicable fashion.

One issue that remains unresolved, despite substantial progress, centers on Korea's use of quotas for beef imports. In 1984, Korea restrained imports due to a particularly damaging import surge that led to a collapse of the domestic beef price structure, causing a great deal of discontent among farmers and consequent social turmoil. In 1988, the restrictions were lifted and replaced by a system of import quotas. The U.S. has objected to Korea's use of this import quota. Korea has taken significant measures to promote U.S. exports of beef, helping U.S. exporters increase the quantity of beef sold in 1989 by 7.1 times the previous highest annual level.

The U.S. believes the pace of liberaliza-

Under an agreement with General Electric, Samsung Aerospace workers assemble jet engines at Changwon Plant #2.

Workers assemble VCRs *at a Samsung Electronics plant in Suwon.*

KOREA

tion of the Korean telecommunications sector should proceed faster. In December 1988, Korea established a Telecommunications Task Force to make recommendations as to how to proceed with liberalization. The Korean government will formulate policy based on these recommendations with sensitivity to American concerns and interests. In addition, the Korean government is ready to participate in the Uruguay Round of discussions under the GATT regarding telecommunications services so as to promote generally accepted standards for this trade.

The U.S. has formally complained that government subsidies on shipbuilding in foreign countries have harmed the competitiveness of its domestic shipbuilders. Korea considers that current subsidies to the Korean shipbuilding industry are within the boundaries recognized by the GATT and to discontinue them unilaterally without proper consultation within the GATT context could serve no useful purpose. Korea also considers its subsidies to be minimal and to have no substantial impact on U.S. commerce. Korea is confident that this issue can be resolved.

The U.S. and Korea have had differing opinions on the correct value of the won, the Korean monetary unit. The U.S. has maintained that the won is undervalued and that this helps Korean exports with an artificial competitive advantage. The U.S. has also objected to Korea's foreign-exchange system, which, according to the U.S. Department of Treasury, renders itself to easier manipulation of the currency. Korea has committed itself to restructuring its foreign-exchange system so that market forces can play a greater role. Korea believes that this change will dispel, to a large extent, concerns that Korea's exchange-rate system is manipulative.

As expected, Korea's wide-ranging market-liberalization efforts have yielded striking results in its global accounts as well as in its bilateral accounts with the U.S. These results are all the more impressive given that other East Asian nations, undergoing similar import-liberalization efforts, have achieved far less impressive results.

Korea has all but eliminated its trade surplus, from $9 billion in 1988 to only $990 million in 1989.

Korea almost halved its bilateral trade surplus with the U.S., primarily because of a 26-percent jump in imports, more than any other U.S. trading partner.

In industry after industry, U.S. exports are making rigorous inroads in the Korean market, including the tobacco market, where U.S. sales are up 83 times what they were in 1986; pharmaceuticals, where U.S. exports now constitute 20 percent of the Korean market; electronic equipment, where U.S. exports also comprise 20 percent of the Korean market; and agriculture, where U.S. sales are up by 15 percent over the preceding year.

Korea is firmly committed to a true partnership with the U.S.

President Roh Tae Woo of Korea made a historic proposal for a "Partnership in Progress" last October in his speech before a joint session of the U.S. Congress. A commitment to partnership is worthwhile only when it is fully supported by action, not just by words. Korea's record is unique in its striking and undeniable results. For example, last year witnessed a dramatic decline of almost 90 percent in Korea's global trade surplus and a halving of Korea's bilateral surplus with the U.S., due primarily to a strong surge in U.S. exports to Korea.

In the early 1980s, well before Korea recorded its first trade surplus, while it was still burdened by heavy debt and while it was under little pressure from its trading partners to open its markets, Korea embarked on an ambitious plan to liberalize its markets.

Korea's spontaneous steps stemmed from the realization that Korea's economic growth could be sustained only in parallel with its degree of market opening and internationalization. The liberalization drive, which began in 1981 and continued despite mounting political and social constraints, accelerated as soon as Korea recorded its first trade surplus in 1986. This drive has brought about impressive, almost unprecedented results:

- Since 1980, automatic import license approval rates have risen more than 35 percentage points, from 58.6 percent in 1978 to 95.5 percent in 1989, and are scheduled to reach 97.3 percent by 1991.
- Tariffs were cut almost in half, from 23.7 percent in 1983 to 12.7 percent in 1989, and are expected to fall to 7.9 percent by 1993.
- Numerous trade and nontrade barriers to imports have been dismantled.

Korea's trade reforms have rapidly reduced its trade surplus with the U.S. Korean imports jumped in 1989 by 26 percent; exports to the U.S. dropped 4.2 percent. The overall U.S.-Korean trade balance, which was $9 billion in Korea's favor in 1988, was only $4.5 billion in 1989.

Through this record of positive and constructive action, Korea has established the groundwork for a common economic future with the U.S. and invites the U.S. to start together a meaningful new beginning in the pursuit of such a future.

Changes Ahead For Franchising

Many franchisors are taking a less entrepreneurial and more managed approach to growth.

By Meg Whittemore

As franchising enters its fourth decade of expansion, it is undergoing changes that promise even greater growth in the years ahead.

Consumers are spending over one-third of every retail dollar in a franchised business, and the proportion is expected to increase. Moreover, what was once only a method of distribution is graduating into a sound strategy for business expansion.

"In the 1990s, franchised businesses will account for more than half of all retail sales in the U.S.," says John Reynolds, director of marketing and public relations for the Washington, D.C.-based International Franchise Association. That estimate translates into sales of more than $1 trillion, he says, adding that franchising "will become the dominant form of retailing in most of the developed countries around the world."

There is no question that franchised businesses have enjoyed explosive growth in the past 10 years, and indications are that there will be more of the same throughout the 1990s. Nonetheless, the way in which franchisors view growth is changing.

During the 1980s, expanding your business through franchising often meant selling as many franchises as possible to achieve rapid market penetration and product recognition. While this approach is still widely used, many franchisors are beginning to take a less entrepreneurial and more managed approach to growth.

"During the 1980s, many franchise companies grew too quickly," says Robert Kushell, a franchise-management consultant in Glen Cove, N.Y. "That often resulted in a top-heavy franchise system with a relatively weak management structure to support the franchisees and future growth of the franchise."

Growing your business through franchising, he says, has moved beyond merely selling as many franchises as possible. "The watchword for the 1990s is going to be responsible growth," says Kushell.

Responsibility for their own growth was a goal achieved by the franchisees of the Howard Johnson's Restaurant franchise network after several years of being affected by takeovers. During the heyday of the Howard Johnson chain in the 1970s, the restaurants' highly recognizable orange tile roofs were seen all over the country. The chain had almost 800 company-owned restaurants, 261 franchised restaurants, more than 500 motor lodges, as well as vending and turnpike operations and a manufacturing and distribution system.

Although competition from fast-food restaurants cut into Howard Johnson's restaurant business, many of the franchisees continued to operate successfully.

To ensure growth at the pace they desired, Howard Johnson's Restaurants franchisees in 1986 formed Franchise Associates Inc. (FAI), a management and marketing company. Wholly owned and operated by the franchisees, FAI, based in South Weymouth, Mass., provides training, field-operation supervision, food purchasing, product development, market research, marketing, and public relations for Howard Johnson's Restaurants franchisees; there are 110 now, and the number is expected to grow.

The company's president, Arthur Barrett, says FAI's success reflects a major strength of franchising—the cus-

Howard Johnson franchisees *formed their own management company.*

tomer loyalty that it fosters. "There will always be a demand for the Howard Johnson's 28 flavors of ice cream," he says. And that means the stage is set for future growth. IFA's Reynolds agrees. "Through recessions, corporate upheavals, mergers, and acquisitions," he says, "franchises continue to do what they do best—serve the customers."

The trend toward expanding the marketing reach of a company through franchising is undeniably strong, as is evident in the increasing internationalization of franchising. For example, this past March, Ito-Yokado Co. Ltd., Japan's second-largest supermarket owner, announced its agreement to buy 75 percent of Southland Corp., the parent company of 7-Eleven, for $400 million. The purchase—a way for the Japanese retailer to penetrate the U.S. market quickly—represents one of the largest Japanese investments in the American retail industry, and it underscores franchise companies' attractiveness to foreign investors.

The marketing strategy *for Brigham's: ice cream and a new menu.*

The IFA's Reynolds calls this emerging trend "the globalization of franchising," and he predicts that U.S. franchise businesses will be in the international merger-and-acquisition spotlight well into the '90s.

U.S. franchisors, eager to grow as quickly as possible, are entering this decade with a set of challenging questions that have no easy answers. The concerns have to do with how to expand a franchised business while keeping franchisees happy, maintaining product or service consistency, retaining customer loyalty, and making a profit. The possible solutions require skills more akin to corporate management than the raw energy of entrepreneurship.

Most franchise operations "were started by entrepreneurs who had the ability to create and launch an idea but don't understand management and control related to growth," says Kushell. Their primary strength—creativity—often is not what's needed to expand the company's earnings, he says. Similarly, Reynolds says that "as many franchise companies grow, corporate management styles will replace the entrepreneurial styles of the company founders."

Such transitions can be seen in the growth of Brigham's Restaurants & Ice Cream Parlors, headquartered in Arlington, Mass. Edward Brigham started the ice-cream store in 1914 in Newton Highlands, Mass., and sold it in 1920. During the past 70 years, the company changed ownership frequently. The original ice-cream recipes are still used, but the corner store has been replaced by shopping-mall restaurants with seating for 100.

Despite such changes, the strength of the Brigham's tradition in New England is still at the heart of the company, says Milton Namiot, Brigham's president. "What we have done is to apply sound management techniques to this company," he says, "and what we ended up with is an evolving tradition that retains the best of both worlds."

Namiot, who was senior vice president of marketing and business development at Gulf + Western, arrived at Brigham's 15 months ago. "Since I've been here, I've tried to show the employees how we can turn the company around," he says. "Sometimes it's wisdom—not numbers—that counts." When he joined Brigham's, he says, he found "a company that was steeped in tradition, produced phenomenal products, had an excellent physical plant, and had loyal and dedicated employees,

In the 1990s, franchised businesses will account for more than half of all retail sales in the U.S.

—John Reynolds, International Franchise Association

but the company still functioned as if it were in the 1950s." It was time for a change.

The basic marketing strategy, says Namiot, has been to maintain Brigham's established reputation for high-quality ice cream while adding a new, moderately priced menu to its 63 franchised locations throughout eastern Massachusetts.

A Brigham's franchise costs $31,500 for the franchise fee plus $350,000 for store-opening expenses. Every Brigham's restaurant is located in an enclosed mall, which greatly enhances its profitability because of all the shoppers passing by, says Namiot. The company's growth plans include mall locations in Kingston and Saratoga, N.Y.; Manchester, Conn.; and Kingston, Mass. The longest reach, says Namiot, is a possible location in Freehold, N.J.

"We are not anxious to move out of our basic trading area," says Namiot, "but the problem is that we have to go where the shopping malls are." Namiot's confidence in his "evolving tradition" at Brigham's is so strong that he offers every new franchisee a money-back guarantee. If the franchisee is not satisfied after three years of ownership, he says, "we will refund the full amount of the franchise fee."

His approach has worked. In less than a year, Namiot has improved Brigham's cash flow by $2 million, with a similar gain expected in 1990. Sales for the company were just under $40 million last year.

Offering security for a potential franchisee's investment is a tactic that up to now has seldom if ever been used in franchising. To attract and keep qualified franchisees, franchisors increasingly are offering additional incentives designed to protect the franchisee's initial investment if the franchise fails.

One of the companies taking such steps is Leros Point To Point, a limousine franchise headquartered in Thornwood, N.Y. Leros was started in 1984 and began franchising in 1988. It offers a stock-ownership program to its franchisees. Under the program, franchi-

sees earn equity in the parent company for fees and royalties paid during the year. Founder Lonnie Lehrer believes that as shareholders, franchisees will be better attuned to the franchisor's interests. Says franchise consultant Kushell: "I've never heard of an idea like this before, but I think the idea is beautiful."

Lehrer also offers a guarantee that "if a new franchisee fails to gross at least $100,000 during the first year of operation, we refund the difference up to the franchise fee," which ranges from $15,000 to $21,000. Total cost for a Leros franchise is $70,650 to $117,450, depending on the size of the territory and whether the business is a start-up or a conversion.

Conversion franchising—buying an existing independent business and converting it to a franchise—is becoming more popular with franchisors who are eager to broaden their market reach in highly competitive areas of business. FAI's Barrett says he thinks the real growth for the Howard Johnson's Restaurant franchise program will be in conversions. "We feel strongly that there are many independent restaurants out there, especially on the East Coast, that would be better off with a recognizable name like Howard Johnson's," he says.

During the 1980s, many franchise companies grew too quickly. . . . The watchword for the 1990s is going to be responsible growth.

—Consultant Robert Kushell

Conversion franchising is a big part of the Leros Point To Point franchise-expansion plan. Leros helps franchisees acquire existing limousine companies and convert them to Leros locations. "The acquisition provides franchisees with immediate cash flow," Lehrer says, "and the conversion allows them to benefit from the systems and procedures of Leros."

The overall plan has greatly enhanced Leros' market reach. The 5-year-old franchise has 10 locations, primarily in the Northeast corridor from Boston to Washington. Leros offers limousine service to corporate clients, using sedans rather than costlier stretch limousines. According to industry reports, the sedan service is the fastest-growing segment of the $1-billion-a-year limousine industry.

Leros' growth plans call for adding 12 to 18 franchises this year. Leros differs from other limousine businesses, says Lehrer, in that it awards its franchisees entire territories that can be serviced only through a cohesive marketing and management program provided by the headquarters office. "Our franchisees are business people, not chauffeurs," says Lehrer, "and that gives them an advantage in building long-term viable businesses."

Acquisition and conversion are among the growth strategies of Uniforce Temporary Services, headquartered in New Hyde Park, N.Y. Uniforce, which offers temporary personnel to businesses across the country, is well aware of the need to use innovative methods to expand markets. "Survival of the fittest will be the hallmark of our industry in the next decade," says John Fanning, the company's president. "Our goal is not to merely survive but to thrive."

With that in mind, Uniforce encourages its franchisees to seek and acquire other temporary-personnel companies in their markets. Under its "Santa Claus" program, Uniforce contributes 50 percent of the cost of acquiring a

company, and the franchisee retains total equity in the newly acquired business. According to Fanning, in 1989, nearly $6 million was added to sales through this program. "For 1990 and well beyond, our thrust for growth will remain focused on the acquisition arena," he says.

Such strategies for franchise growth—money-back guarantees, stock ownership, and the use of sophisticated management techniques—herald a new age for franchising. They are incentives that will help franchisors face the increasingly competitive business climate of the 1990s.

Uniforce *franchisees are encouraged to seek acquisitions.*

Mark Your Calendar

This year the International Franchise Association (IFA) will hold three World of Franchising Expos featuring exhibits by 100 franchises. The expos are open to the public; admission is $5 per person, payable at the door.

Expo visitors may also attend two free educational seminars sponsored by the IFA. One seminar covers how to buy a franchise; the other concentrates on how to franchise an existing business. The latter session covers areas such as the history of franchising, the legal requirements, the pros and cons of franchising, and how to develop a franchise system for your business.

The IFA Expos' dates and locations:
Aug. 11-12, San Francisco
Sept. 8-9, Chicago
Oct. 27-28, Atlanta

To obtain additional information on

the World of Franchising Expos and the seminars, write to the International Franchise Association, 1350 New York Ave., N.W., Suite 900, Washington, D.C. 20005-4709.

For More Information

There is a wide variety of written material on franchising. Topics include buying a franchise, starting or owning a franchise, marketing and sales, franchisor/franchisee relations, and the growth of franchising.

Following is a partial list of resources, along with the name and address of each organization to contact for information on ordering.

> *Survival of the fittest will be the hallmark of our industry in the next decade. Our goal is not to merely survive but to thrive.*
>
> *—John Fanning, Uniforce Temporary Services*

How To Be A Franchisor, $7. Available through the International Franchise Association, 1350 New York Ave., N.W., Suite 900, Washington, D.C. 20005-4709.

The Franchise Option: Expanding Your Business Through Franchising, $26 in hardcover, $21 in softcover. Available through the IFA at the address above.

Blueprint for Franchising a Business, $28. Available through the IFA.

Franchising—The How-To Book, $18. Available through the IFA.

The Insider's Guide to Franchising, by Bryce Webster, $19.95. Available through AMACOM, American Management Association, 135 W. 50th St., New York, N.Y. 10020.

The Encyclopedia of Franchises, by Dennis L. Foster, $65. Write to Facts on File, 460 Park Ave. S., New York, N.Y. 10016.

How To Franchise Your Business, by Mack O. Lewis, $5.95. Order directly from Pilot Books, 103 Cooper St., Babylon, N.Y. 11702.

Franchises You Can Run From Home, by Lynie Arden, $14.95. Contact John Wiley & Sons Inc., 605 Third Ave., New York, N.Y. 10158.

Franchising In The Economy, 1988-1990, $25. Available through the IFA.

Growing From The Inside Out

Four years ago Wayne Alter knew that something had to change within his security-alarm franchise business, but he wasn't sure what it was.

His franchise, Dynamark Security Centers, in Hagerstown, Md., was successful, but Alter knew that to ensure long-term growth, he needed a plan that went beyond merely selling franchises. "Many franchise companies place the emphasis on selling franchises and building their systems," he says. "We wanted to place the emphasis on servicing our franchisees."

Then Alter met Robert Kushell, a franchise consultant who heads Kushell Associates Inc., in Glen Cove, N.Y. Alter recalls that Kushell "said the most important dynamic in the franchise relationship was love. It caught me off guard. I'd never quite heard anything like that before."

Alter approached Kushell a year later and asked for help. Dynamark was growing, its four-person executive staff was knowledgeable and enthusiastic, but it was struggling with the day-to-day management process. Says Kushell: "Dynamark was at that critical point in its growth where the entrepreneurial team that launched the business was unable to shift into the management role necessary to carry the company forward."

In 1987, Alter contracted with Kushell to teach the Dynamark executive team how to manage the company effectively to ensure continued long-term growth. Kushell calls it growing from within. Alter says: "Kushell is an excellent company 'shrink.' He has the ability to reach people and to unlock the potential inside a company that the owners or management didn't see was there."

The process was slow but thorough. First, Kushell met with each of the four Dynamark executives who collectively handled marketing, sales, training, field service, franchise relations, and finance; he sought to determine how each component fit within the management process.

"What I found was typical within companies at that stage of growth," says Kushell. Dynamark, he says, had "no management process, no business plan, no departmental plans, no job descriptions, no accountability." The staff was dedicated, and everyone worked hard, he says, but there was no road map.

Kushell's next step was to determine

where the business was making its profit. After a guided brainstorming session led by Kushell, the executives discovered that their profit came primarily from DynaWatch Inc., a subsidiary of Dynamark, and not from selling their security-alarm systems. DynaWatch is a computerized operation for monitoring Dynamark's home and business security-alarm systems nationwide from a central location; it is staffed around the clock, and it is a service available by contract.

"So now the whole objective became growing the [DynaWatch program] and accumulating as many of these DynaWatch service accounts as we could," says Kushell.

Armed with goals that seemed to be in line with producing greater profits for the company, Kushell turned to the organizational management structure of the franchise. "I told each of the four executives to get a flip chart, and we started using that thing," Kushell says. "They learned how to get their goals and objectives on paper before they committed themselves to action."

As a result, each executive, along with Kushell, drew up a departmental plan that reflected each person's responsibilities and each department's method for reaching its goals. "Having your goals written down enables you to work through the numbers and come out with a reasonable budget," says Kushell.

The next step was to formalize accountability within the company. "I wanted to teach Wayne [Alter] that he now had people who were accountable to him for certain things," says Kushell, "and that it was no longer his job to go into the various departments and do things himself."

Executive meetings followed, department heads gave reports, and the managerial atmosphere changed as each executive planned his work and worked his plan. "The big challenge was to get Wayne comfortable in giving the authority to someone else for the areas he once was involved in," said Kushell.

The strategy works, says Alter. "We learned that franchising is more than just numbers, brochures, and good information; it takes having a vision but also knowing how to plan and manage in order to realize your goals."

In the three years since his initial visit, Kushell has been meeting with the Dynamark team six times a year. "This past year, they did a wonderful job of putting together the business plan that I literally orchestrated the first year," he says.

Now his involvement has shifted from hands-on training and is centered on fine-tuning the company's internal communications and helping the man-

agement team grow professionally. "The idea is to help them develop their own career path and make sure the company is the benefactor," says Kushell.

Alter is pleased with the results of Kushell's involvement with Dynamark. "He gave us a new perspective on franchising," he says.

Future growth of the security-alarm franchise includes adding 500 franchise units within the next five years, expanding in five countries, and capturing 5 percent of the U.S. residential security market, or $100 million in annual systemwide revenues over the next five years.

"Kushell has been tremendously helpful to us in developing our visions for the '90s," says Alter, "and in developing strategic plans that will turn those visions into reality."

Homework Suggestions

Franchising your company could be the best business move you ever made. To avoid headaches and costly pitfalls, however, you should consider seeking the advice and help of an experienced, reputable franchise attorney. Following are some of the matters that you and any expert guiding you should consider as you prepare to become a franchisor. These suggestions are adapted from materials published by the International Franchise Association:

Organization. Organize in a logical and sequential way the body of knowledge that has permitted you to be successful. Remember, you are going to train prospective franchisees in a subject in which they have little or no knowledge.

Pilot Program. Franchisors must operate a successful pilot or prototype operation to demonstrate that their representations about the business are supported by their deeds.

Operating Plan. Develop an operating plan that encompasses all the plans and programs needed to launch the franchising company. The plan should cover sales, servicing, training, site selection, pre-training activities, post-training efforts, and the name of each person responsible for each area.

Financial Plan. Develop a conservative financial plan that includes cash flow, profit and loss, and additional sources of funding that can be made available if necessary.

Franchisee Profile. Decide if your franchisees will be individuals or companies. Draw a profile of the traits you desire in a franchisee, such as type of

experience, education, financial capabilities, skills, and personal qualifications.

Franchisee Training. Decide the areas in which you will train your franchisees, how you will accomplish the training, and who will do it.

Growth Plan. Decide whether your company will grow slowly or quickly, and whether it will expand regionally, nationally, and/or internationally.

Franchise Cost. Decide on the initial fee, royalty fees, and advertising contributions that franchisees will be required to make.

Franchise Sales. Choose the ways your franchise will be sold. Possible methods include your own sales department, business brokers, subfranchisors, direct mail, word-of-mouth, and advertising.

Franchise Financing. How will you finance your growth? Options include a public offering of stock, a private offering, venture capital, industrial bonds, Small Business Administration loans, limited partnerships, commercial banks, and funds generated by your own company.

Tax Plan. Important matters to address are avoiding liabilities for franchisees' taxes, net royalty concept, capitalizing sales expenses, and capitalizing initial franchise fees.

Franchisee Control. Decide on restrictions on corporate franchisees and their shareholders, assignment restrictions, inheritability controls, and rules regarding breakaway franchisees, franchisee bankruptcy, competing franchisees, and franchise size.

> *Franchising ... takes having a vision but also knowing how to plan and manage.*
>
> *—Wayne Alter, Dynamark Security Centers*

Advertising. Decide on the scope of advertising you will need—national, regional, or local—and the most suitable media—newspapers, direct mail, flyers, radio, television, or regional or national magazines. Will the franchisee pay a fixed percentage of gross sales independently for advertising?

Dispute Procedures. How will you resolve disputes? Possibilities include litigation, arbitration, and mediation. Who will pay attorneys' fees?

Operations Manual. The methods and procedures to be followed by franchisees and their employees in the operation of the franchised premises must be developed and clearly written in an operations manual. It is advantageous to place as many details as possible about the franchise system in this manual.

Employees. Decide the functions that employees must carry out—such as franchise sales, franchisee training—and what the payment will be for these tasks. Decide on employees' qualifications, and write job descriptions. Develop a basic organizational chart.

Personal Assessment. If you are an entrepreneur setting out to franchise your business, you should ask yourself certain questions. For example, are your goals realistic and attainable? If you need financial help, will you allow a lender an equity position? Do you have the patience, tenacity, and self-discipline to start a fledgling business or convert yours to franchising? Can you develop and sustain relationships with many different personality types? Are you willing to make the necessary sacrifices and contend with the effects on your family and other areas of your life? Can you give up some of your "independence" to franchisees or get them to work with you? NB

To order reprints of this article, see Page 76.

Family Business

The growing need for graceful departures, the hard task of succession planning, and a son's resentment over treatment within the firm.

COMMENTARY

Letting Go Without Giving Up

By Sharon Nelton

For a business owner, the prospect of retiring is tough, often even unthinkable. I once observed a tense panel discussion involving a father who didn't want to let go of the family business, a successor-son who was anxious to be rid of him, and a daughter who commented that her father was afraid that if he retired, he would die.

And maybe there's something reasonable about that fear. According to a recent article in *The New York Times*, Henry Kates, the chief executive of the Mutual Benefit Life Insurance Co., is helping to finance research on the psychological effects of retirement on senior executives, and he is starting a program at Mutual to rehire some executives who didn't want to retire. Why? Because over the past 11 years, Kates has seen six senior managers die soon after retirement.

PHOTO: T. MICHAEL KEZA

Nelton: *"Retirement can . . . bring the family closer together."*

We often say of a person, "His work is his life." Perhaps, then, for such an individual, giving up work is giving up life. A CEO's retirement from a family business is even more complicated than the retirement of a top executive from a nonfamily company—especially if the CEO is the business's founder. As Jeffrey Sonnenfeld so ably points out in his book *The Hero's Farewell*, founders' identities become intertwined with those of their firms. "In leaving, they feel they are losing a part of themselves." They may feel the loss of their "heroic stature" as well as the frustration of leaving a "heroic mission unfulfilled, because the business, if left to an incompetent successor, may wither."

There may be a power struggle between father and son that leaves the retiring CEO feeling abandoned by his children. Further, destructive rivalries among potential successors may surface at this time, "disrupting the business and forming deep rifts within the family," says Sonnenfeld, director of the Center for Leadership and Career Change at Emory Business School, in Atlanta. He also notes that the spouse of the departing leader "may still be hiding some smothered grief over a loss of status."

As our longevity increases, the hazards of not facing up to the issue of retirement may grow even more severe. Owners reluctant to let go will be healthy and active enough to hang on even longer while their children grow ever older before getting their chance at running the show. The 80-something founder refusing to turn management over to the 50-something "kid" may become more common.

The solution is for all family members to anticipate what Sonnenfeld calls the "challenges" and to plan not only for a positive, active retirement of the CEO but also for leadership succession. One place to start is by obtaining Sonnenfeld's book, published in 1988 by Oxford University Press in New York, or reading "The Parting Patriarch of a Family Firm," an article Sonnenfeld coauthored in the winter 1989 issue of the *Family Business Review*. (For information on ordering the *Review*, call the publisher, Jossey-Bass Inc., in San Francisco; 415/433-1767.)

Retirement should be not the end of a life but the opportunity for a wonderful new beginning. And in a family business, when it is handled gracefully and constructively, retirement can be another opportunity to bring the family closer together and help assure the continued success of the company.

PLANNING

Why Owners Don't Plan

By Craig E. Aronoff and John L. Ward

"We already spend too much time in meetings around here. What we really need are doers, not talkers!"

"I guess we should plan more, but we can't predict the future. There's too much uncertainty. Besides, we're a leader in our industry without ever having a formal plan."

Do these comments sound familiar? Many entrepreneurs hate planning. They've succeeded without it. They like action, not meetings. They live in the present.

But our experience shows us that planning is critical for long-term success. If your goal is to continue your family's business, no skill is more important.

Two plans are essential: the business's strategic plan and the family's succession plan. These two plans examine the questions, "Where are we going?" and "How are we going to get there?" Without them, the business owner jeopardizes all that he or she has built and hoped for.

Developing products, markets, financing, capacity, and people are the challenges that confront the business's management. Each takes time—sometimes years—to realize.

The family must think about how inheritance taxes will be paid, which family members are interested in business leadership, and what different family members expect from business ownership. Each requires foresight.

Obviously, planning can help. But business owners so often resist efforts to begin formal planning. Why? Here are the most common objections that we hear:

- Planning is a straitjacket. It limits flexibility.
- Future uncertainty makes planning impossible.
- Planning takes too much time away from day-to-day responsibilities.

Based on our experience, we'd say these excuses don't hold water. Planning expands options and increases the

Mark Your Calendar

June

"Your Family-Owned Business: How To Build It, Manage It, Make It Last," a seminar sponsored by *Nation's Business*, Laventhol & Horwath, and Shearson Lehman Hutton, is offered three times: Rye Brook, N.Y., June 3-5; St. Charles, Ill., June 8-10; San Diego, June 21-23. Featured speaker is Peter Davis, director of family-business studies at the Wharton School of the University of Pennsylvania. For information, call 1-800-521-1818.

June 13-15, Cleveland

"Managing Succession Without Conflict in the Family-Owned Business," a seminar for business owners, their spouses, successors, and key managers. It is conducted by nationally known family-business consultant Léon Danco. Contact the Center for Family Business, P.O. Box 24268, Cleveland, Ohio 44124; (216) 442-0800.

July 19-22, Snowmass Vil., Colo.

The Aspen Family Business Conference focuses on 10 essential qualities shared by successful family businesses, as identified by pioneering family-business consultant David Bork. Contact the Bork Institute for Family Business, 117 Aspen Airport Business Center, Suite 101, Aspen, Colo. 81611; (303) 925-8555.

Aug. 2-4, Carmel, Calif.

"The Family Business Experience" is a three-day course covering such topics as succession planning, women in family firms, and relations with nonfamily employees. Contact the Center for Entrepreneurial Management, 180 Varick St.—Penthouse, New York, N.Y. 10014; (212) 633-0060.

Aug. 26-30, Philadelphia

"The Next Generation of Family Members in Family-Held Businesses," a seminar for young adult family members and their spouses. For information, contact the Division of Family Business Studies, Sol C. Snider Entrepreneurial Center, The Wharton School, University of Pennsylvania, 426 Vance Hall, 3733 Spruce St., Philadelphia, Pa. 19104; (215) 898-4470.

ability to respond to change. Planning reduces uncertainty by generating information and promoting understanding.

For most small to medium-sized firms, effective planning takes four to 10 days annually—less than 5 percent of working time!

Frankly, we find that these objections cover unexpressed but real fears. These fears form a core part of the entrepreneurial personality.

When we listen beyond the words, we hear:

- "Deep down, I know I should plan. But I don't know what to do. I'm the leader, but I don't know how to lead the planning process."
- "If we plan, I'll have to let others know my mind—then it will be harder to change it later on."
- "Planning will surface a bunch of

ILLUSTRATION: JIM STARR

half-baked ideas that I won't want to deal with."
- "Planning will make us focus on fewer products or services or markets instead of a more diversified, safer strategy."
- "Planning makes me more dependent on others for information and implementation."

Entrepreneurs often attribute their success to playing everything close to the vest. They have learned to depend mostly on themselves.

But secrecy and self-reliance cannot offer success beyond the entrepreneur's career. The world changes too fast. New ideas are required for continued effectiveness, and they must come from others. Talented people are required to effect change, and they won't be attracted to your business unless they are involved in making decisions.

As one family-business successor explained: "Once we began to trust that others had something valuable to contribute and also had a stake in our success and an ability to help us accomplish our goals, undertaking planning seemed natural."

In a sense, planning expresses the inevitable dilemma of small-business survival. To start a business, the entrepreneur had to depend on himself or herself and conserve energy for action. To continue, however, the business leader must communicate with and include others.

Similar concerns face the business owner who contemplates succession planning. The subject is full of uncertainty, self-doubt, and fear.

Succession planning requires the painful acceptance of mortality by the family and the entrepreneur. The process requires business-owning parents to share personal financial information, including the value of their estate and the contents of their wills. It requires contemplation of unknowns like family health, qualifications of family members, and business strength.

Succession planning prompts choices that are hard to make. Perhaps the toughest are choosing one successor from among several children and choosing a time to retire voluntarily from the business you love.

As with business planning, succession planning is more comfortably set aside for a future, unspecified "better time." As procrastination lets precious time slip by, the family business becomes less able to realize its future.

Planning is essential to the continuity of the family business.

Planning expands choices; planning facilitates inevitable change; planning coordinates and motivates others to accomplish goals.

But most of all, planning is an attitude. It's an attitude of trust in others. It's an attitude that others have a stake in the future and a right to know more about it. It's an attitude that what's discussed openly is more constructive and what's unsaid is more problematic.

Those who plan care more for the future than for their own comfort. They are unselfishly committed to the continuity of their family business. The result is a beautiful legacy.

PHOTO: T. MICHAEL KEZA

John L. Ward is the Ralph Marotta professor of private enterprise at Loyola University of Chicago. Craig E. Aronoff holds the Chair of Private Enterprise at Kennesaw State College, in Marietta, Ga. Both are family business consultants.

CASE STUDY

A Son Resents Unfair Treatment

Jim Martin walked into his father's office and threw his resignation on the desk. Age 34 and general manager of the retail division of his family's furniture business, Jim has been with the company for 10 years. Before that, he had worked in the banking industry for three years and had earned his MBA. In his early years at Martin's Inc., he had been energetic, ambitious, and effective.

But now he is burned out. He thinks his future looks grim. He feels unrewarded and unacknowledged.

Eric, Jim's brother-in-law, is sales manager of Jim's division. Eric, a high-school graduate who has also been with

ILLUSTRATION: JIM STARR

Martin's for 10 years, is informal in style. Highly sociable, he tends to take long lunch hours and work 9 to 5 in contrast to Jim's 12-hour days. Although sales have remained steady, Jim resents Eric's abbreviated hours and easygoing ways.

The fact that his father, CEO Ed Martin, won't make it clear who is to succeed him also gnaws at Jim.

Ed has adopted a hands-off approach, hoping the successor will emerge or that Eric and Jim will work it out between them.

To make matters worse, Ed has just announced he intends to divide the company stock equally—as his father had done before him—between his two children, Jim and daughter Sarah. Never invited into the business herself, Sarah pushed for her husband, Eric, to be involved. According to Ed's plan, Eric and Jim will continue to receive identical compensation packages.

Jim just can't accept the idea that his hard work and better education will not be rewarded with what he considers appropriate remuneration and ownership.

What can Ed do to keep Jim in the company?

PHOTO: © SCOTT GOLDSMITH

Address The Root Causes

Barbara Hollander, a Pittsburgh family-business consultant and president of the Family Firm Institute:

Two key root factors are contributing to the tension here— the "triangled" relationship involving Ed, Jim, and Eric, and the family "rules."

In a triangle, two people with a conflict avoid discussing it by focusing on a third person as the problem. Although the heat is ostensibly between the two younger men, Jim's lack of acknowledgment stems from an unsatisfactory relationship with his father, not Eric. Eric is the lightning rod. It is Ed who permits Eric's latitude while expecting Jim's hard work. Ed needs to start communicating directly with Jim about the issues that are troubling the two of them. As their communication and relationship improve, it is likely that the electricity between Jim and Eric will diminish.

Family rules—unwritten and often unconscious—determine beliefs, values, and behavior. Three powerful rules in the Martin family are: "Fair is equal"; "Conflict is to be unexpressed and avoided"; and "Women are not candidates for the business."

Ed needs to recognize that in providing for equal compensation and stock distribution, he is following a pattern set by his father, when, instead, he could explore other options. He also needs to see that he avoids choosing a successor out of fear of confrontation over the decision. However, his indecision only increases the competitiveness between Jim and Eric instead of encouraging them to work as a team. The fact that the young men are working in the same division fuels the conflict further. They would benefit from some separation.

Finally, Sarah has never been considered for a role in the business. Thus she has "appointed" her husband to be the liaison to her prime asset. Ed would do well to legitimize her role as potential shareholder of influence by including her in appropriate decisions.

PHOTO: © SCOTT GOLDSMITH

Use This Opportunity

Robert B. Williams, family business planning attorney with Eckert Seamans Cherin & Mellott in Pittsburgh:

Jim's resignation has opened the door to frank communication. I would encourage Ed to look at this as an opportunity and to approach it constructively.

If Jim's concerns are not openly discussed and resolved, the business and family will suffer. Ed might talk with Jim and Eric about implementing an incentive or "cafeteria" compensation plan where levels of performance would be set and bonuses awarded according to the performance achieved. If Eric can achieve high sales with less effort, he may deserve the same compensation as Jim. Or, Eric may opt for shorter hours, more vacation, and less pay. The program should reward individual excellence and promote team building and cooperation between Jim and Eric.

If Ed divides the stock equally between Sarah and Jim, provision should be made through a shareholder's agreement that either can buy out the other or that the business can be divided fairly. This will help avoid indecision and a loggerhead that may weaken the business and the family. Some of the stock might be made available to Eric as long as he remains an executive. The family also should consider inviting Sarah to take a more active role in the business, particularly if she is to be an equal owner.

As an alternative, Ed could leave controlling stock interest to Jim and equalize the value of Sarah's inheritance with nonbusiness assets.

In any event, Ed should move forward with a succession plan with which there is general agreement. It should provide for gradual transfer of the stock to the successors, gradual increase of control by the successors, and assurance that the company and shareholders will have sufficient liquidity to allow the business to survive after payment of death taxes and other obligations.

This is one of a series of case studies of family-business dilemmas, commented on by members of the Family Firm Institute and edited by Cleveland business consultant Ernesto J. Poza. The cases are real, but identities have been changed to protect the privacy of the individuals involved. The authors' opinions do not necessarily reflect the views of the institute.

To order reprints of this case study, see Page 76.

LAW

The Maze Of Product Liability

The hodgepodge of product-liability laws stifles innovation and should be replaced by fair, uniform federal rules.

By Joan C. Szabo

Over the past three years, a small auto-parts manufacturer in Orrville, Ohio, has been forced to cut back on new-equipment purchases, reduce research and development, and cancel many salary increases for its 300 employees. The Will-Burt Co. had to take these cost-saving steps so it could pay the legal expenses of defending itself against product-liability lawsuits, says H.E. Featherstone, president and chief executive officer. Although the firm has won all suits so far, it has spent $600,000 doing so.

Many small firms are facing similar problems caused by the hodgepodge of states' product-liability laws, which can lead to costly and sometimes frivolous lawsuits against manufacturers and sellers. Steps to cope with the legal costs—or to prevent such lawsuits in the first place—are stifling innovation and competitiveness at various companies, prompting cutbacks in research and capital expenditures, and often leading to higher consumer prices. The situation is especially burdensome for smaller firms, which often lack the resources to pay for lengthy legal battles.

"Right now a small business can be wiped out by one punitive-damage award," says Victor Schwartz, counsel to the Product Liability Alliance, in Washington, D.C. "The rules on punitive damages in most states are open-ended, the standards are vague, and there are no limits on the amounts of money for which a company can be sued." The alliance is a coalition of more than 300 trade associations representing manufacturers, product sellers, and their insurers, and it seeks enactment of product-liability reform legislation introduced in Congress.

Business owners and groups that represent them say that a federal uniform product-liability law is needed so that U.S. companies will be able to run their businesses more effectively and competitively. "Consumers have every right to be protected from shoddy, unsafe products and from manufacturers' deliberate neglect," says Jeffry Perlman, manager of legal and regulatory affairs for the U.S. Chamber of Commerce. "However, it is only fair that those who make products and those who use them know exactly and clearly what the rules of liability are."

Jim Anderson, senior director of government relations for the National Association of Wholesaler-Distributors—which is the executive secretariat of the Product Liability Alliance—says, "What we are looking for is uniformity, stability, and fairness in product-liability law."

The New York-based Conference Board, a nonprofit business-information service, said in a recent survey report that it found widespread worry about possible liability lawsuits caused 47 percent of companies to discontinue one or more product lines, 25 percent to stop certain product research and development, and 39 percent to decide against introducing a new product.

Examples of such concerns can be found at companies whose products are as diverse as building materials and pharmaceuticals. When the Monsanto Co. developed a safer, cheaper substitute for asbestos, which is a known carcinogen, executives at the St. Louis chemical company concluded that guilt by association with asbestos would make it a target for costly liability suits. They canceled the product.

Similarly, concern about possible liability lawsuits has sharply reduced the number of companies willing to produce vaccines against childhood illnesses. For example, 13 U.S. companies used to produce the diphtheria, tetanus, and pertussis (DTP) vaccine, but now the only U.S.-headquartered firm still manufacturing it is Lederle Laboratories, in Pearl River, N.Y. The company says that over the past five years it has had to quadruple the vaccine's price to pay both the costs of increased lawsuits and the federal tax on the vaccine imposed by the National Vaccine Compensation Act. The 1986 law created a no-fault compensation system for families of children who were injured or who died as a result of adverse vaccine reactions.

All but a dollar of the consumer's $12

PHOTO: ©M.C. VALADA—FOLIO INC.

Vaccines against childhood illnesses *have been dropped from production by some U.S. pharmaceutical companies because of concerns about lawsuits.*

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LAW

cost for a dose of DTP vaccine goes to pay for liability insurance, says Washington lawyer Peter Huber, author of *Liability: The Legal Revolution and Its Consequences*. According to Huber, the product-liability system causes an estimated $40 billion to $80 billion to change hands in the U.S. each year. He estimates that barely 40 cents of each dollar paid for liability coverage ever goes to anybody who is injured, and that approximately 60 cents goes to lawyers, insurance companies, expert witnesses, and others.

Since about 70 percent of all products are sold in interstate commerce, questions often arise as to where product-related injury claims should be adjudicated and which standards of liability apply. This confusion leads to increased costs as both sides in a dispute seek to have the case heard in a state with laws and regulations favorable to its cause.

> *Confusing state product-liability laws [must be replaced] with a uniform national system based on common sense and fairness.*

On Capitol Hill, Sen. Robert Kasten, R-Wis., has introduced a product-liability bill—S. 1400—that has the bipartisan support of more than 25 cosponsors. They include several influential Democrats, such as Senate Commerce Committee members Daniel K. Inouye of Hawaii—the panel's ranking Democrat—John D. Rockefeller IV of West Virginia, and J. James Exon of Nebraska. In the House, Rep. Thomas Luken, D-Ohio, has introduced a similar bill, H.R. 2700.

Sponsors of the legislation are especially encouraged this year by support from the White House. President Bush signaled his strong commitment to product-liability reform by mentioning it in his State of the Union address.

In introducing the legislation, Kasten said it was designed to replace the "patchwork quilt of 50 different and confusing state product-liability laws with a uniform national system based on common sense and fairness." Here are key provisions of Kasten's bill:

Uniform Liability Standards. Product sellers (retailers, wholesalers, distributors) would be liable for harm caused by their own fault. They also could become responsible for a manufacturer's errors in cases in which the manufacturer cannot be brought to court or lacks funds to pay a judgment.

Joint And Several Liability Reform. Imposition of pain-and-suffering damages would be allowed in proportion to a defendant's individual fault. The full recovery for economic losses resulting from medical expenses and lost wages would be maintained.

Alcohol And Drug Defense. Persons who were intoxicated or under the influence of drugs at the time of injury would not be awarded damages if the use of alcohol or drugs was the primary cause of the injury.

Statute Of Limitations. A plaintiff could sue up to two years after discovery of an injury and its cause, even if the injury is a disease, for instance, that occurs many years following exposure to the product. In a case involving capital goods such as industrial machinery, a suit would have to be filed within 25 years of the machinery's delivery date, the claimant would have to be eligible for workers' compensation benefits, and a claim could not be based on exposure to toxic substances.

Uniform Standards For Punitive Damage Awards. This provision recognizes that punitive damages constitute a quasi-criminal type of penalty and should be assessed only when a manufacturer or product seller has engaged in egregious conduct warranting such punishment. It would establish a uniform rule on the type of misconduct that could result in punitive damages.

Expedited Settlement. The legislation provides incentives for expedited settlement of product-liability lawsuits.

Although there have been several attempts in the past to reform the nation's product-liability laws, supporters of the current legislation are optimistic that they can make considerable progress toward passage of a bill this year.

Says Schwartz of the Product Liability Alliance: "The measure is not likely to become law unless small-business people make it a top priority. In the past, the measure has been defeated by the legislative pressure applied by 75,000 trial lawyers. While there are many more small-business people than trial lawyers, the lawyers regard product liability as their bread, butter, and cake."

It is this type of commitment and legislative drive, Schwartz says, that business must demonstrate if product-liability reform is to be achieved. NB

Grass-Roots Education Reform

Business is taking bold steps to lift U.S. educational achievement to levels needed for economic growth.

By Joan C. Szabo

Attempts during the 1980s to improve the educational achievement of American students made little headway, and much remains to be done to prepare young people for the challenges of the 1990s. That is the consensus of business representatives, government leaders, and educators nationwide as demand grows for sweeping, fundamental changes in the American educational system.

"Our education system must be restructured," Education Secretary Lauro F. Cavazos said earlier this year in response to disappointing results of national tests of students' achievement. "We need a revolution in teaching and learning." The same theme was sounded by Sue E. Berryman, director of the Institute on Education and the Economy, at Columbia University's Teachers College, in New York. She said, "The U.S. must take the whole educational enterprise apart and put it back together in a different way."

PHOTO: T. MICHAEL KEZA

A new sense of urgency *is evident in business's efforts for educational reform and work-force preparation, says Edward Donley.*

Such proposals are ambitious, but the U.S. has no other choice, say many experts in business as well as education. If the nation wants to remain economically strong and internationally competitive, they maintain, it must improve the quality of its educational performance. For their part, business people and organizations have been undertaking significant new efforts to help overcome educational deficits in the U.S.

One such effort was launched recently by the U.S. Chamber of Commerce when it established the Center for Workforce Preparation and Quality Education. Creation of the center was announced at the Chamber's annual meeting, in Washington. The new center plans to mobilize local communities through state and local chambers of commerce and to elevate the visibility and voice of business in education.

"The most successful and lasting solutions to education reform must come from the local level—by business, education, and community leaders," says Edward Donley, chairman of the new center. "Those solutions can only be found by employing a strong intermediary organization." To that end, he says, "state and local chambers of commerce hold the key." Most chambers of commerce have education committees and are working within their states or local communities to upgrade public schools.

Factors that prompted establishment of the center include the poor showing of students in various tests and evaluations such as the National Assessment of Educational Progress (NAEP). This congressionally mandated project was established in 1969 to measure the achievement of elementary, middle-, and high-school students. NAEP reported this year that the reading and writing performance of students 9, 13, and 17 years old are virtually unchanged since the 1984 assessment. NAEP also found that nearly 60 percent of today's 17-year-olds lack the reading skills necessary to comprehend materials common in business and higher education.

Education Secretary Cavazos said of the results: "As a nation we should be appalled that we have placed our children in such jeopardy. Reading and writing are the basic tools of learning, the crux of the academic enterprise. Without solid literacy skills, we can never expect to see improvements in math, or science, history, or geography. And the cost will be staggering."

These problems are making it more difficult for employers to find skilled workers to fill increasingly complex and technical jobs. Many business leaders realize that if the erosion of a skilled work force is to be stopped, business must assume a larger role in finding better ways to educate, motivate, and train the country's future workers.

Donley, a long-time supporter of educational reform and of business action to deal with problems in the education system, is chairman of the executive committee of Air Products and Chemicals Inc., in Allentown, Pa. He was that company's president from 1966 to 1978, and he served as its chairman from 1978 until he retired in 1986. Donley also is a former chairman of the U.S. Chamber of Commerce, and he believes the Chamber is in a unique position to help spearhead a nationwide education-reform drive at the grass-roots level. Its 2,700 member chambers in cities, suburbs, and rural areas nationwide are strategically placed to become catalysts for reform in their local school districts.

Donley says that while businesses have been involved in education-improvement efforts for some time, many now feel a new sense of urgency to work on broad-based restructuring projects. He says that in his region, the Lehigh Valley area of eastern Pennsylvania, the business community has joined with educators to develop a program of basic education reforms.

The Lehigh Valley Business Education Partnership consists of 22 area public-school superintendents, 30 chief executive officers of the area's larger corporations, and the presidents of 10 local colleges and universities. The partnership has identified six specific education-reform items that require immediate attention, and it has established task forces to study each. The task forces are made up of teachers, school administrators, business and labor representatives, and parent-teacher association members. The task forces will issue recommendations in four months and work for their enactment.

Donley says the Lehigh Valley partnership is one grass-roots model that offers the promise of bringing together

all elements of the community to shape genuine reform efforts. "We are not suggesting that each community adopt the Lehigh Valley plan," he says. "Instead, each one will have to develop a plan that best fits their own area."

Ronald Diss, a professor of education at Emory & Henry College, in Emory, Va., says that local efforts are key to paving the way for educational reform. Diss, a specialist in education restructuring, says, "We must work collaboratively, designing delivery systems that work under broad education goals." He is referring to goals recently announced by President Bush in conjunction with the nation's governors. The goals say that by the year 2000:

- All children in the U.S. will start school ready to learn.
- The high-school graduation rate will increase to at least 90 percent.
- American students will leave grades four, eight, and 12 having demonstrated competency in challenging subject matter, including English, mathematics, science, history, and geography.
- U.S. students will be first in the world in science and mathematics achievement.
- Every adult American will be literate and will possess the knowledge and skills necessary to compete in a global economy and exercise the rights and responsibilities of citizenship.
- Every school in America will be free of drugs and violence and will offer a disciplined environment conducive to learning.

Broad goals, says Diss, encourage specific steps at the local level: "The way a community goes about achieving those goals is not going to be by the book but by sitting down and struggling as a community to really solve the local problems."

Donley agrees with this assessment. "With 1,600 school districts in the U.S., reforms that are right in Mississippi may not be right in Minnesota," he says. "We will have to work through restructuring for each community. That is why in Eastern Pennsylvania, we have brought all the community together to reach a consensus on what is best for our community. Each community can try what it believes is best, and within five years we will see which approaches work better.

"In the end, just like the competition in the business world, the better product will be the one used by more people." NB

A Center For Better Education

To help reform the nation's schools and ensure a knowledgeable, well-trained work force, the U.S. Chamber of Commerce has launched the Center for Workforce Preparation and Quality Education. The new center is an employer-based, action-driven organization focusing on education restructuring and work-force preparation. One of its major responsibilities is to develop a common program and message for state and local chambers to use in helping to achieve education reform.

Its primary objectives include:

- Developing a national campaign to link business, education, and community leaders, inform them of ways to achieve local reform, and stimulate them to action;
- Identifying the most successful and results-driven education partnership activities and showing executives of local chambers and business leaders how to get these initiatives under way;
- Apprising students of the economic benefits of staying in school and obtaining a quality education;
- Developing issue papers on promising reforms and restructuring initiatives, such as core competencies, accountability, and alternative teacher certification;
- Issuing a regular newsletter featuring recommendations on key issues and descriptions of successful practices in education restructuring and work-force preparation;
- Developing and maintaining a database of education contacts in member chambers nationwide.

The center is an independent legal entity, separately incorporated with its own board of directors. The board consists of Edward Donley as chairman, H. William Lurton as vice chairman, James K. Baker, Richard Breault, Robert Campbell, John L. Clendenin, Peter Flanigan, Robert Gill, Jeffrey H. Joseph, Richard L. Lesher, Ellsworth McKee, John C. Rennie, C.J. Silas, and James N. Sullivan.

The center has an education kit designed to help local chambers work for effective education reform at the local level. It includes a printed guide and a videotape. It is available free to local and state chambers. A small charge will be made for kits ordered by individuals. Requests for the kit can be sent to Robert L. Martin, Center for Workforce Preparation and Quality Education, U.S. Chamber of Commerce, 1615 H Street, N.W., Washington, D.C. 20062.

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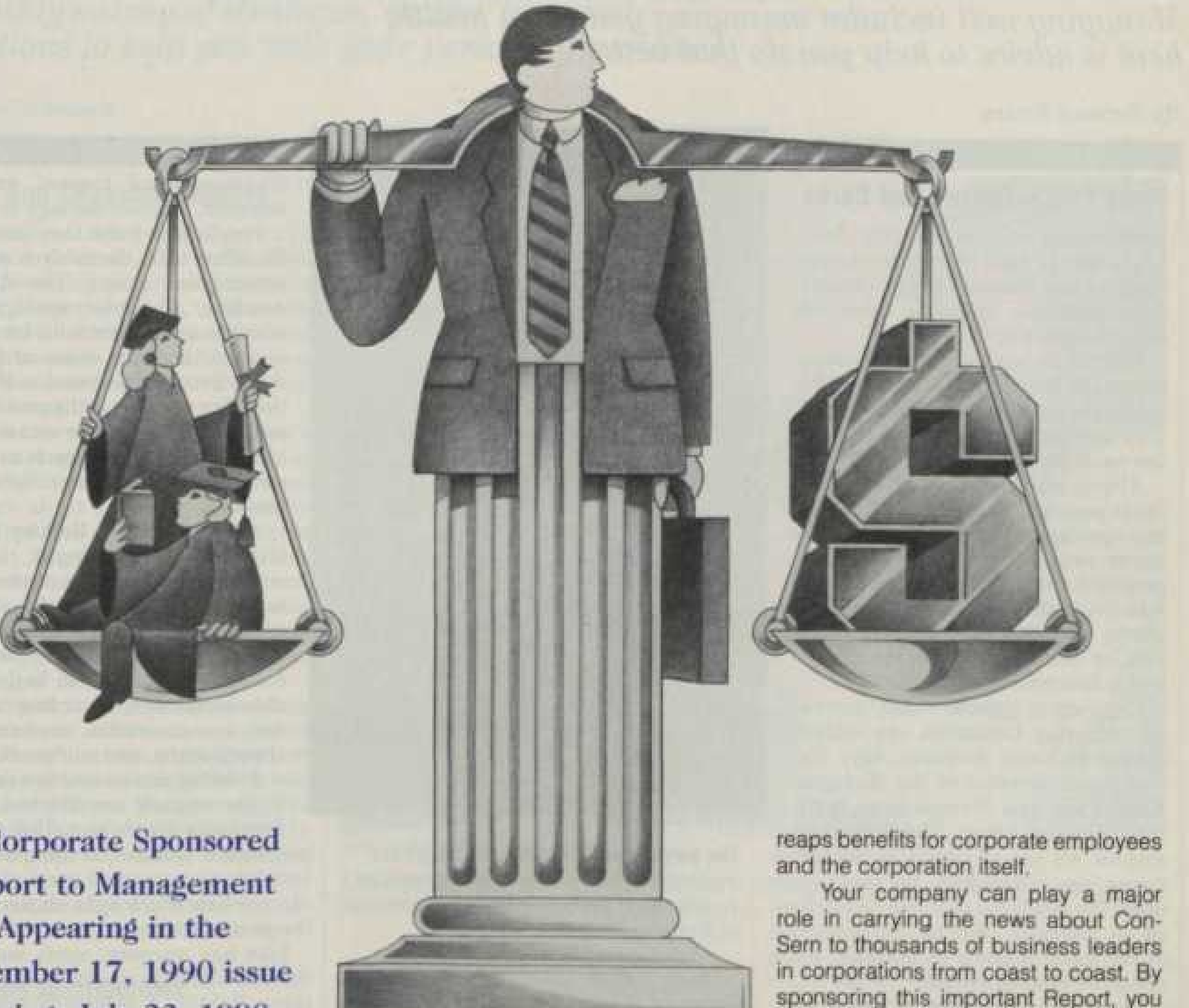

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"We hear a lot about competitiveness . . . One of the things that will help Americans be more competitive is more and better education.

"There is a great need for private sector initiatives for education that rely on private capital and not federal funds.

"The U.S. Chamber of Commerce ConSern Loans for Education Program is a most important private sector program between U.S. Chamber companies and their employees enabling low-cost, long-term loans for education."

Richard Lesher
President
U.S. Chamber of Commerce

Take Advantage of All the Benefits of Supporting This Corporate Report to Management

Farsighted business executives recognize the potentially devastating impact that major educational problems today will have on tomorrow's work force—and how a major shortfall in college-educated people will translate into a far different American society . . . a far weaker global competitor. Lurking four-square behind the problem is the usual culprit—money: the escalating costs that throw a figurative stop sign in the education path of many of today's middle-class students.

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Forbes
Capitalist Tool®

To Your Health

Managing well includes managing your own health; here is advice to help you do that better.

By Norman Brown

Sinus Pain's Causes And Cures

Numerous problems, ranging from headaches to sore throats to chronic coughs, are blamed on the sinuses. Sometimes the blame is deserved, sometimes it's not.

Each of us has four pairs of sinuses—in the cheekbones, above and between the eyes, and deep in the skull. Tiny openings connect all of them to the nasal passages.

Almost anything that irritates the nasal passages can also block the sinus openings. Colds are the most frequent cause, but allergies, sudden pressure changes (as in air travel), tobacco smoke, and extreme temperatures can also lead to pain, infection, or chronic sinusitis, the persistent inflammation of the sinuses.

Contrary to popular belief, however, recurring headaches are seldom caused by sinus disorders, says Dr. Joel Saper, director of the Michigan Head Pain and Neurological Institute, in Ann Arbor. Those blocked sinuses we see in television advertisements are misleading, he says; more often the headache pain can be attributed to migraine, rhinitis (inflammation of the nasal mucous membrane), tooth decay, or even eyestrain.

There are two types of sinus pain. Acute, the more common, usually lasts a week, and it can be nagging or excruciating, resembling a cluster headache (a form of migraine most commonly experienced by men, with intense pain on one side of the head). The pain is most severe when the headache sufferer bends over, says Dr. Joseph A. Peterson, assistant professor of emergency medicine at George Washington University Medical Center, in Washington, D.C., "but it may also increase with walking, coughing, or sneezing."

Influenza and strep throat account for half the cases of acute sinus pain that most doctors see, Peterson says. Even though the pain is short-lived, doctors recommend antibiotic therapy to forestall such complications as bronchitis, chronic cough, and asthma.

A less common but more serious cause of acute sinus pain is a fungal sinus infection, which may require intravenous therapy. Computed tomography—X-ray scans of the head in many different directions—may be needed to determine the extent of the infection.

PHOTO: ©DAN McCOY—RAINBOW

The purple areas *on this thermogram represent the sinuses—those cavities in the skull so susceptible to pain and infection.*

Chronic sinusitis occurs when the sinus opening is blocked over a longer period of time; the pain is milder than in acute sinusitis but can occur off and on for years. Chronic sinusitis is more common in women than in men. It can be caused by a deviated septum or by polyps or cysts in the sinuses (which may themselves develop out of inflammation of the sinus cavity); frequently, surgery is required to eliminate such causes. Viral and bacterial infections are, however, the most common causes of chronic sinusitis.

Symptoms of chronic sinusitis are a persistent postnasal drip with hoarseness or coughing. Acute pain is *not* a common sign, and its absence leads some people to go for years without seeing a doctor; the problem should be diagnosed and treated promptly, however, to avoid damage to tissues.

People who think they have sinusitis often treat themselves with nonprescription drugs. The American Academy of Otolaryngology, which consists of doctors who treat disorders of the ears, nose, and throat, doesn't recommend such self-medication. For one thing, the problem may not actually be in the sinuses; but if it is, and if an infection is causing it, such medications won't fight the infection.

According to Dr. Berkley Eichel, a UCLA otolaryngologist, bed rest would cure 90 percent of sinus infections. Physicians usually prescribe antibiotics for such infections, though, because most people will not confine themselves to bed. Acceptable antibiotics, according to Peterson, are amoxicillin, cephalosporins, trimethoprim, and sulfamethoxazole.

A doctor can sometimes determine if the sinuses are blocked by performing a simple test. Using a small instrument (similar to the one used to look into the nose and ears), the doctor can see how much light shines through the sinus cavities.

Like any surgery, sinus surgery to correct blockage should not be undertaken lightly. A relatively new procedure involves inserting a lighted endoscope through the nose or directly into the sinus cavity. Tiny scissors can then be passed through the tube to remove damaged tissue.

According to Dr. David Kennedy, otolaryngologist at Johns Hopkins School of Medicine, in Baltimore, the procedure "permits doctors to better diagnose sinus trouble and perform less-extensive surgery with less destruction of normal sinus tissue."

Whenever you catch a cold, there's a risk the infection can spread to the sinuses. Treat the cold promptly, and keep your sinuses healthy. Use a humidifier, and sleep with two pillows to promote sinus drainage. Taking hot showers can also help.

For a free booklet on sinus pain, send a stamped, self-addressed envelope to "Sinus," c/o American Academy of Otolaryngology—Head and Neck Surgery, 1 Prince St., Alexandria, Va. 22314. NB

Norman Brown is a Providence, R.I., free-lance writer who specializes in medical topics.

It's Your Money

A monthly survey of strategies, tactics, tips, and suggestions to help you with your personal finances.

By Paul N. Strassels

BENEFITS

Picking And Choosing Benefits

Employees love their benefits. And well they should. After all, life, health, dental, and disability insurance, vacation and sick leave, discounts, retirement benefits, on-site child care and workout facilities, business trips, bonuses, maternity leave—such benefits can add up to a very attractive package.

But not every element in your firm's benefits package will be of interest to every employee. Childless workers won't care about maternity and parental-leave benefits or child care. Parents will want family health insurance, whereas unmarried employees may not.

Because workers' needs differ, one-fourth of the nation's 1,000 largest firms now let their workers select from a grab bag of benefits.

The interest in flexible benefit plans has grown even faster since repeal of Section 89, a complex rule aimed at making benefits more available to lower-income workers. Many employers felt that Section 89 would have made flexible benefits impossible to administer.

For small firms, an affordable package is a few years away, experts say.

PHOTO ©JON FEINGERSH—FOLIO

A flexible mix of benefits *lets employees pick what they need; workers with young families may opt for maternity benefits.*

Lump-Sum Distributions

It was once a common practice for workers to take jobs with a hometown company and spend their entire working lives with that employer.

Now, switching from one employer to another is commonplace. And since employees generally have vested pension rights after being on the job only five years or sometimes even less, they often receive substantial lump-sum distributions from their pension accounts when they leave an employer. Instead of saving the money by rolling it over into an IRA within 60 days, however, many spend some or all of it on cars, trips, and other discretionary consumption. According to the Employee Benefit Research Institute, only 10 percent of employees who receive lump-sum distributions when they leave an employer save all of the payment in a tax-deferred retirement account.

INVESTMENTS

Mutual Facts

More than 30 million investors have poured billions of dollars into thousands of mutual funds. The question is, how do you dig out the basic facts about the mutual funds—their mailing addresses, minimum investments, sales charges, and so on? Which funds are involved in high-risk growth, international operations, bonds?

The mutual-fund industry's trade association has put out a guide listing 2,922 mutual funds under 22 investment categories. Send $5 to Guide, Investment Company Institute, P.O. Box 66140, Washington, D.C. 20035-6140.

Paul N. Strassels, president of Money Matters Inc., Rapid City, S.D., is a tax-law specialist and financial adviser.

Retirement Accounts: Invest Early And Often

People have a dual purpose when they save for retirement: to get a tax break and to enjoy a nicely feathered nest when they retire. There are three steps you should take to achieve both goals:

First, save with tax-deferred retirement accounts. Your nest egg grows that much faster when you save with pretax dollars.

Second, contribute the maximum amount. Whether it's to an individual retirement account, Keogh, 401(k) deferred-compensation plan, or other tax-deferred retirement account, save up to the limit each year, or at least as much as you can afford.

Third, invest as early in the year as you can. Your retirement funds will grow large indeed through compounding. The sooner you invest, the sooner the interest starts accumulating.

TAXES

On The Prowl For Nonfilers

As part of its ongoing study of taxpayer behavior, the Internal Revenue Service is actively searching for those individuals who have dropped out of the system.

The IRS knows that there are people out there who have not filed returns, sometimes for years. It is making an effort to find these folks and get them back on the rolls. It is looking at various mailing lists, computer records that contain information on bank accounts, records of insurance claims and hospital stays, and other sources.

How successful will the IRS be? It's too soon to tell. But this much is certain: The agency usually spends money only on efforts that it has determined will result in a substantial return on its investment.

Small-Business Expense Accounts

Some small-business owners use their firms as private banks. This practice can get you in a lot of financial difficulty, especially with the IRS.

Auditors recently identified one particular practice that is all too common among small-business owners.

It seems that many business owners draw money out of the business at the beginning of the year, labeling the withdrawal for "travel." Then, at the end of the year, they hurriedly try to reconstruct all of the business trips that they have taken, in an effort to zero out the account.

The IRS doesn't like that one bit. Auditors are checking to see how soon expense accounts are turned in after a trip and how company reimbursement policies are written.

The best advice is to take travel advances only a week or so before you leave, and turn in your expense report as soon as possible after you return. Anything else is dangerous.

Donating Leave To Co-Workers

When an employee suffers a catastrophic illness or accident and will be laid up for months, chances are the person's sick leave and vacation will not completely cover time away from the office. That can result in a significant financial hardship.

Often, generous co-workers will try to ease the burden. They may be willing to pitch in and contribute some of their own accumulated sick or vacation leave to their stricken colleague.

Many employers are willing to go along. Now, the IRS provides guidance on the practice. Amounts paid by an employer under this type of leave-sharing plan must be included in the gross income of the recipient, just like regular compensation. Still, that's better than going without a paycheck for months while you are recuperating.

And The Risk Goes Down

When it comes to audits, the odds are definitely in your favor. Twenty years ago, the IRS was able to audit approximately 2 percent of all the returns it received. In the wake of federal budgetary problems that have curtailed hiring, that rate has been decreasing. The IRS says it currently is able to audit fewer than 1 percent of all the income-tax returns it receives.

Despite this 50-percent reduction, the IRS has actually improved audit coverage where it really counts—that is, audits that result in substantial deficiencies. It has become more efficient in administering the tax laws. For example, the IRS's computers find errors that are automatically corrected. That does not constitute an audit.

IRS computers *now routinely pick up mathematical errors that once might have been caught only in an audit.*

In addition, its computers enable the IRS to match almost 100 percent of the information returns it receives—those reporting interest paid and miscellaneous income, for example—to the appropriate tax returns. That has substantially improved taxpayer compliance. According to the IRS, under-reporting problems of only a decade ago have been reduced substantially.

The IRS has become more judicious with its resources. The agency tends to audit taxpayers with larger incomes, especially those who are involved in small businesses.

HOME OFFICES

Tax Court Vs. The IRS

What do you do when the IRS and the Tax Court disagree? That's the question now faced by the millions of taxpayers who operate an office at home.

In May, we reported that the Tax Court allowed a deduction of home-office expenses by an anesthesiologist who worked at several hospitals and used his home office to keep his books and prepare for patients. The court allowed the deduction even though he spent only 30 percent of his working time in his home office and did not use it for meeting with patients. The court ruled that it would no longer limit deductions to taxpayers who performed services at their home offices and generated income there. Deductions would also be permitted when no other office space was provided, the taxpayer spent a significant amount of time at the home office, and the home office was used exclusively and regularly for business.

The IRS contends the opinion flies in the face of legislative intent. Further court tests are expected.

Taxpayers are caught in the middle. The IRS cautions that it will deny deductions based on the decision.

You have two options. One is to follow the IRS's advice, forgo the deductions, and watch for the eventual outcome. If the IRS ultimately loses, you could file amended returns, but only for returns within three years of the date of the final decision.

The other option is to ignore the IRS's warning and claim the deductions that the court permits. Then, when the IRS denies them, you could appeal, thus protecting yourself from losing deductions that may otherwise be foreclosed by the expiration of the three-year statute of limitations.

RETIREMENT PLANS

More On Keoghs As Collateral

Last year, we reported in this column that Keogh plans can be used as collateral for a loan.

Perhaps we should have mentioned that when such a pledge is made, it amounts to a taxable premature distribution of the Keogh.

In the instance referred to, an individual had gone to his bank and pledged his Keogh. Some time later, he declared bankruptcy. When the bank tried to take the Keogh, the individual argued that it was a protected asset. The bankruptcy court held that it was not, that the Keogh money was forfeit.

He not only lost his Keogh retirement account but also had to pay income tax on the premature distribution that took place when he pledged the Keogh in the first place. NB

For Your Tax File

What you need to know to keep taxes from overtaxing you.

TAX FREEDOM DAY

Pushing Back The Date

If you think your annual tax burden is growing, you are right. The average U.S. taxpayer had to work through the 125th day of this year—two days longer than last year—to satisfy all federal, state, and local tax demands, says the Tax Foundation. The Washington-based, nonprofit research group calculates Americans' tax burden each year.

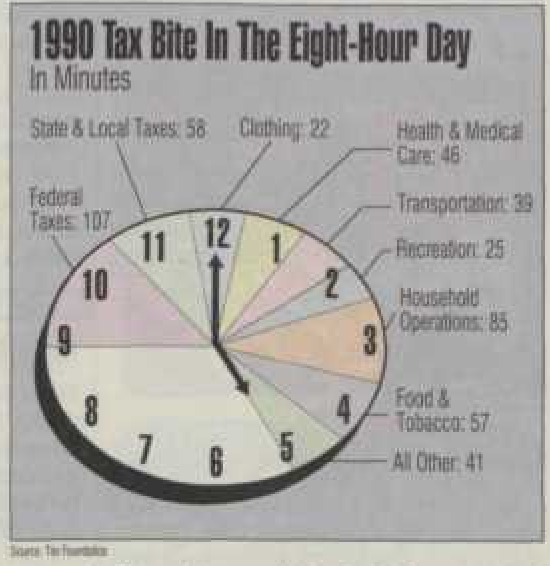
The average worker's tax liability for 1990 equals all of that worker's income through May 5, which the foundation estimates was this year's "Tax Freedom Day." Last year the date was May 3. The earliest date of a Tax Freedom Day in the 1980s was April 28, 1984.

The Tax Foundation cites several causes for the two-day increase in time spent working just to pay taxes. Among the causes are the base-broadening provisions in the Tax Reform Act of 1986 and the increases in both the taxable earnings base and the tax rate for Social Security. "There is roughly $10 billion in tax revenues coming from automatic Social Security tax increases that began Jan. 1, 1990," says Wayne Gable, president of the foundation.

Another factor contributing to the two-day advance is the slowdown in economic growth. The foundation says that the nation's nominal income—not adjusted for inflation—is estimated to grow only 5.7 percent, yet the total tax bite is projected to increase 7.2 percent. "Stated simply, tax increases will outpace the growth in individuals' incomes during 1990," Gable says.

In measuring the tax bite in an eight-hour workday, the foundation found that the average American will work two hours and 45 minutes this year to satisfy federal, state, and local revenue collectors—three minutes more than the time spent in 1989. The federal government will claim one hour and 47 minutes, while state and local needs will take a 58-minute chunk.

This year, for the first time, the Tax Foundation conducted a study to determine the Tax Freedom Day for each state and the District of Columbia. Even though May 5 is Tax Freedom Day for the typical U.S. worker nationwide, tax-freedom dates in individual states vary. They are determined on the basis of not only federal taxes but also income levels as well as state and local taxes in the specific states. The burden for each state is the sum of its taxes calculated as a percentage of its total income.



At the top of the list are the District of Columbia and New York state, where May 23 is Tax Freedom Day. In third place is Delaware, followed by Hawaii, Connecticut, Maryland, New Mexico, Alaska, New Jersey, and Massachusetts. Individuals in those nine states and the nation's capital will spend about nine days above the national average in working to pay off their total tax liabilities.

On the other hand, residents of New Hampshire and South Dakota worked the fewest number of days to reach Tax Freedom Day—April 19. Next were Mississippi, Idaho, Oregon, Nebraska, Arkansas, Montana, Iowa, and Indiana.

The foundation notes that the combined pressures of a persistent federal budget deficit, demands to expand funding for new and existing programs, budget crises in numerous states, and the slowdown in income growth could make Tax Freedom Day even later in coming years.

REGULATIONS

Federal Fog

A regulation on passive-activity income has earned the Internal Revenue Service the "Most Incomprehensible Government Regulation" award for 1990 from an accounting firm in Illinois. The "winning" rule is temporary Treasury Regulation 469-1T(f)(2)(i)(C). It deals with a type of loss that businesses may take on their federal tax returns.

The award is conferred on the basis of findings in a nationwide survey of accountants conducted by Comprehensive Accounting Corp. of Aurora, Ill., which provides accounting and tax services to small and medium-sized businesses through its 240 franchised offices.

The language of the rule selected for 1990 is so confusing that few business people can understand it, says Colette M. Hessenauer, chairman of Comprehensive Accounting's National Awareness Fund. The rule reads in part: "If the taxpayer's passive activity gross income from significant participation passive activities (within the meaning of section 1.4692T(f)(2) through (4)) exceeds the taxpayer's passive activity deductions from such activities for the taxable year, such activities shall be treated, solely for purposes of applying this paragraph (f)(2)(i) for the taxable year, as a single activity that does not have a loss for such taxable year."

Hessenauer says the firm estimates that the average small-business owner spends about $750 a year seeking outside help in interpreting all of the government regulations that are difficult to understand. "With approximately 17 million small businesses in the country," she says, "more than $12 billion is being spent just to decipher poorly written and confusing regulations." NB

Direct Line

In which experts answer our readers' questions about starting and running their businesses.

By Meg Whittemore

MANUFACTURING

ILLUSTRATIONS: DAVE ALLEN

Something In The Oven

I am starting a cookie company. I would like information on manufacturing cookies, machinery available to produce cookies, packaging and labeling machinery, and any other appropriate information.
T.N., Montgomery, Ala.

The Bakery Equipment Manufacturers Association can give you information on cookie-mixing equipment and the best types of ovens for any volume of cookie production. To obtain a free listing of bakery-equipment suppliers and manufacturers as well as other information on the bakery industry, you can write or call the association at 401 N. Michigan Ave., Chicago, Ill. 60611; (312) 644-6610.

The Packaging Machinery Manufacturers Institute offers a variety of information on packaging and labeling equipment, including how to order the equipment that best meets your needs. Write or call the institute at 1343 L Street, N.W., Washington, D.C. 20005; (202) 347-3838.

FRANCHISING

The Basics

Please give me information on buying and starting a franchise.
D.Z., Lancaster, Pa.
(Also R.F.H.R., Port Townsend, Wash.; J.C., Livermore, Calif.; and A.M.J., Verona, N.J.)

The International Franchise Association offers a comprehensive list of publications on the subject as well as a schedule of the regional franchise trade shows that are open to the public. Write or call the association at 1350 New York Ave., N.W., Suite 900, Washington, D.C. 20005; (202) 628-8000.

Franchising In The Economy, 1988-1990, issued by the IFA Educational Foundation Inc., costs $25 and can be ordered from the International Franchise Association at the address above.

AGRICULTURE

Tools Of The Trade

What federal, state, or private agency would I contact to find the number of farm-implement dealers in Tennessee, Arkansas, Missouri, Kentucky, Alabama, Mississippi, and Louisiana?
T.A., Memphis, Tenn.

The North American Equipment Dealers Association offers a free roster of the association's 30 regional affiliates, including names and phone numbers of contact persons in each state. Write or call Colleen Flaherty at the association, 10877 Watson Road, St. Louis, Mo. 63127; (314) 821-7220. You also can contact the State Farm Bureau in the capitals of the states you targeted.

LIVESTOCK

Getting Your Goats

My husband and I are looking for information on raising angora goats. Where can we go for help?
L.G., Midland, Texas

Angora-goat ranchers throughout Texas supply 90 percent of the domestic mohair, says the American Angora

Goat Breeders Association. The organization offers free information on the industry, including a list of breeders and material on the care and feeding of

THIS MONTH'S MOST-ASKED QUESTION

Ways To Keep Employees Motivated And Productive

For several months now, small-business owners have been asking us questions about employee relations. Our readers are asking how they can reduce absenteeism in their firms, improve workers' productivity, and help them acquire supervisory skills.

Small-business owners seldom have a personnel manager on staff; instead, they rely on their own knowledge to keep employees informed, rewarded, and developing professionally—efforts that can stimulate productivity.

Although not many small-business owners can afford an extensive personnel-relations program, they can lay their hands on some useful guidelines and information on the subject.

In an informal survey, employee-relations professionals for large and medium-sized companies suggested some tips for keeping employees informed and thus motivated: Tell your employees what you expect of them; tell them how you will measure their performance; tell them when they are doing a good job—and when they are not. The keys to better employee relations are communication and consistency.

Training employees for supervisory responsibilities generally requires outside help. Colleges, universities, and technical schools offer various training programs. Professional, trade, and labor organizations typically offer educational seminars on employee relations and supervisory skills.

The American Society for Training and Development, an organization for human-resource-development profes-

angora goats. Write or call Patty Shanklin at the association, Box 195, Rocksprings, Texas 78880; (512) 683-4483.

RETAILING

Pet Project

I want to open a pet store. Where do I go for information on supplies and overall operation of this kind of business?
S.P., Harrison, Tenn.

Members of the National Retail Pet Store and Groomers Association include retail pet-store owners, manufacturers, distributors, wholesalers, and suppliers of goods and services to the pet industry.

You can write or call the association at 711 Mission St., Suite B, South Pasadena, Calif. 91030; (818) 799-7182.

For sources of pets, contact the National Pet Dealers and Breeders Association, P.O. Box 35, Lancaster, Kan. 66041; (913) 874-2343.

sionals, publishes *Training Partnerships*, a free booklet of guidelines for small-business owners on types of training available and sources of information. Contact the organization's Fulfillment Department, 1630 Duke St., Box 1443, Alexandria, Va. 22313.

The Society for Human Resource Management, an organization for personnel and industrial-relations executives, publishes *Workplace Management*, a monthly newsletter that offers tips on various aspects of employee relations for small firms. It costs $75 a year. You can contact the society's Subscription Department, 606 N. Washington St., Alexandria, Va. 22314.

Most small-business owners are too busy minding the store to create formal employee-relations programs that include specific professional-development goals for each employee. Yet effective management requires ensuring that employees have incentives to maintain their performance day after day.

SERVICES

Sales Skills

I own my own construction business. Where do I go for help to improve my sales and negotiation skills?
D.H., Warner, N.H.

The National Society of Sales Training Executives offers seminars in all aspects of sales. For a free list of seminars, contact the society at 203 E. Third St., Suite 201, Sanford, Fla. 32771-1803; (407) 322-3364.

Birthday Parties

A friend and I are interested in starting a children's birthday party service. How can we get started?
C.M., Burke, Va.

Contact the Small Business Administration office in Virginia at (804) 771-2410, or write to SBA, 400 N. 8th St., Room 3015, Richmond, Va. 23240. Ask for the business start-up kit, and plan to meet with an SBA counselor to discuss your business idea.

The children's birthday party service "is a weekend business and not a big moneymaker," says James Naccarato, president of AAJ Balloon Sculptures, a party-service firm in Annandale, Va. Be prepared for emergencies—know how to use the Heimlich maneuver to help victims of choking, for example—he says, and make sure "you are insured and that there is an adult supervisor in the room at all times."

Uncovering The Facts

I am interested in opening a private-investigation firm that specializes in insurance investigations. Are there any organizations or publications that would give me more information?
O.E.R., W. Union, S.C.

The *Directory of Educational Institutions*, published by the Association of Independent Colleges and Schools, lists schools accredited by the association that offer courses in private investigation. The directory can be ordered for $5 plus postage from the Association of Independent Colleges and Schools, 1 Dupont Circle, N.W., Suite 350, Washington, D.C. 20036; (202) 659-2460.

The Private Investigator's Basic Manual, by Richard H. Akin, costs $24 plus shipping from Charles C. Thomas Publishers, 2600 S. First St., Springfield, Ill. 62794-9265; (217) 789-8980.

For a free catalog of other books on the subject, write or call Thomas Publications, P.O. Box 33244, Austin, Texas 78764; (512) 832-0355.

FITNESS

Sweat Equity

I want to open a gym in Brooklyn, N.Y. The emphasis will be on indoor climbing and gymnastics. What can I expect start-up costs to be, and is there a local or national organization that provides more information?
N.J.L., Brooklyn, N.Y.

The International Dance-Exercise Association (IDEA), an organization for fitness professionals, offers several resource booklets. Their subjects include starting an exercise and fitness business, day-to-day operations, employee management, and marketing and public relations. The resource booklets cost $12 to $20 apiece for IDEA members and $20 to $35 for nonmembers. You can contact IDEA at 6190 Cornerstone Court East, Suite 204, San Diego, Calif. 92121; (619) 535-8970.

HOW TO ASK

Have a business-related question? Send your typewritten query to Direct Line, *Nation's Business*, 1615 H Street, N.W., Washington, D.C. 20062. Writers will be identified only by initials and city. Questions may be edited for space.

The editors of Direct Line have compiled the most-asked questions into the compact *Your Small Business Survival Guide*, at $3 a copy. To order, write to the Circulation Department at the address above. NB

Classified Ads

Classified Rates And Information

To place a classified ad CALL TOLL FREE, 800-424-6746 (in Washington, DC call 463-5640) or write Nation's Business Classified, PO Box 1200, Washington, DC 20013. Closing date for advertising is five weeks preceding date of issue. Rates are based on frequency at a per line per insert cost as follows:

1x	3x	6x	12x	—frequency
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HOME IMPORT MAIL ORDER BUSINESS. Start without capital. FREE REPORT. Mellinger, Dept. A1556, Woodland Hills, California 91367

LET THE GOVERNMENT FINANCE your small business. Grants/loans to $500,000. Free recorded message: 707-449-8600. (HS2)

How to start & operate your own profitable business at home. Free details & info available. Send to: Agnes Wong, Apt. #1, PO Box 14185, Dinkytown, Mpls, MN 55414.

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How to get started. Lines offered. Group programs. United Assn. Manufacturers' Reps. Box 6266-N, Kansas City, KS 66106. (913) 268-9466.

MAKE $100.00/hr. imprinting advertising specialties & souvenirs in your home. We supply incredible low-cost pad printer plus hundreds of products bringing 4 to 5 times your cost! Step-by-step program lets you start without capital. Free sample & details. BASCO, 9351 DeSoto Ave., Dept. 9464-18, Chatsworth, CA 91311-4948.

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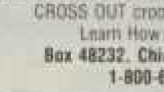

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COMMENTARY

Where I Stand

Readers' responses to this poll give them a direct voice in the policy-making process of the U.S. Chamber of Commerce.

1. Let Proposed Postal Increases Take Effect?

The U.S. Postal Service has proposed an average 19-percent rate increase for all classes of mail starting next February. The increase would cost individual and business mailers up to $8 billion. The Postal Service says it must hike rates to cover labor and other cost increases or it must operate at a deficit, which is forbidden by law. Opponents charge that postal management would rather pass cost increases on to the public than undertake the hard task of curbing them, and they cite as evidence the Postal Service's willingness to pay workers more than double the average wage of private-sector employees. Should the proposed postal-rate increase be allowed to take effect?

2. Should Congress Limit RICO Suits?

The Senate Judiciary Committee has approved a proposal to amend a 20-year-old law that was designed to inhibit organized criminal activities. The committee was concerned that many legitimate companies involved in commercial disputes are being sued under the civil provisions of the Racketeer Influenced and Corrupt Organizations Act (RICO). Amendment proponents say businesses losing these suits often suffer irreparable damage to their reputations and finances. Opponents of amending the law argue that civil suits under RICO curb what they perceive as widespread fraud by U.S. firms. Should RICO suits be restricted to organized criminal activities?

3. Give President Line-Item Veto Power?

President Bush wants authority to veto specific spending items he deems wasteful and unnecessary. The president now must accept or reject in their entirety the broad spending bills that contain specific line items. The president contends that line-item veto power—an authority that most state governors possess—would be an effective tool for deficit reduction. Opponents contend it would transfer too much power from Congress to the chief executive. Should the president be permitted to veto line items in spending bills?

Verdicts On April Poll

Here is how readers responded to the questions in the April issue.

	Yes	No	Undecided
Cut Social Security taxes on employers and employees?	72%	22%	6%
Provide tax incentives for long-term family savings?	79%	14%	7%
Cut taxes on all long-term capital gains?	73%	20%	7%

Send in your vote on the inserted postpaid card. Your views on any of these questions are also welcome as letters to the Editor, Nation's Business, *1615 H Street, N.W., Washington, D.C. 20062.*

COMMENTARY

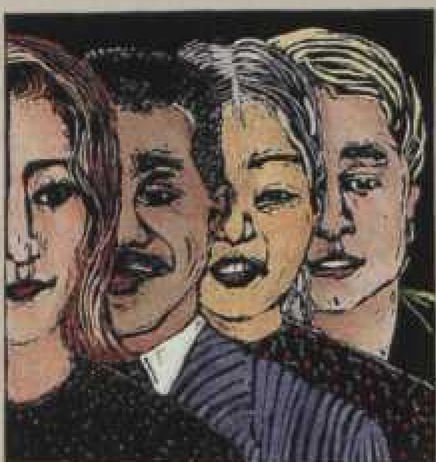
Congressional Alert

Here, in brief, are important legislative issues along with suggestions from *Nation's Business* on what you should tell members of Congress about them. Addresses: U.S. Senate, Washington, D.C. 20510 and U.S. House of Representatives, Washington, D.C. 20515.

Quotas In Hiring

Employers may soon be forced to use quotas in hiring and may face expensive litigation if pending civil-rights legislation is approved by Congress.

Proponents claim that the legislation—S. 2104 and H.R. 4000, known



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as the "Civil Rights Act of 1990"—would simply restore prior law dealing with discrimination in the workplace—law that they contend was weakened by several recent Supreme Court decisions. In fact, the proposal would completely rewrite and drastically expand the employment-discrimination law that has developed over the past 25 years.

Business strongly supports a workplace free of discrimination. Unfortunately, the legislation seeks to eliminate discrimination by substantially increasing the burdens and the risk of liability for every covered employer. It would adopt a virtually irrefutable presumption in favor of quota systems, and it would presume that all employers are guilty of discrimination until they are proven innocent. It also would encourage litigation by allowing jury trials and compensatory and punitive damages.

Contact your representative and senators. Urge them to oppose legislation that would severely restrict an employer's right to make reasonable hiring decisions.

Unemployment-Tax Increase

Businesses may face higher federal payroll taxes under legislation designed to revamp the nation's unemployment-compensation (UC) system.

The measure, H.R. 3896, would raise the wage base for the employer-

paid tax to $10,000 from $7,000 over three years. Proponents say the increase is necessary in order to finance UC program administration and services adequately. However, the measure does not address the real problem—the federal government's use of a portion of its UC tax revenue to offset the budget deficit. It is estimated that in fiscal 1990, employers will pay $710 million more in federal UC taxes for administration than will be spent.

The U.S. Chamber of Commerce believes that burdening employers with more taxes is unfair. Taxes imposed for a specific purpose should be used for that purpose or rescinded. Clearly, current UC tax revenues can and should be used for existing program needs.

Contact your representative and senators. Urge opposition to legislation that would impose unnecessary new taxes and burden the UC system with additional complexity. Emphasize that taxes imposed for a specific purpose should be used for that purpose or rescinded.

Pension Restrictions

Measures that would severely restrict the ability of employers to recover excess assets from terminated pension plans and require joint labor-management control of pension funds are moving in Congress. These

proposals discourage establishment or enhancement of pension plans, as employers face the prospect of reduced authority over benefit programs.

S. 685 would subject pension-plan terminations and asset reversions to the fiduciary rules of the Employee Retirement Income Security Act. Authority to allow an asset reversion from the termination of an overfunded pension plan would be removed from the sponsoring company and given to the plan's fiduciary.

A related measure, H.R. 2664, would require all single-employer retirement plans to be administered by a board of trustees with equal representation by management and unions or employees. Employers with defined-benefit plans would have to share authority over pension-investment decisions while bearing the full investment risk.

Contact your representative and senators. Urge them to oppose legislation that would restrict management's control over pension-plan termination and investment decisions. NB

COMMENTARY

Editorials

The Line-Item Veto: A Logical Starting Point For Fiscal Reform

In his final State of the Union message, President Reagan dramatically demonstrated the extent to which Congress abdicates its responsibility to enact 13 annual budget bills on time.

While the nation looked on via television, the president produced three massive documents that made up the 1987-88 budget package. He displayed each with an explanation:

"This is the conference report—a 1,053-page report weighing 14 pounds. Then this—a reconciliation bill six months late that was 1,186 pages long, weighing 15 pounds; and the long-term continuing resolution—this one was two months late, and it's 1,057 pages long, weighing 14 pounds. That was a total of 43 pounds of paper and ink."

Under existing budget procedures, the president had to accept that package in every detail or bring the federal government to a halt by vetoing it. He felt he had no choice but to sign and then bring his case for budget reform to the public.

The problem remains, however. Congress refuses to approve the two constitutional amendments needed to put the federal government's finances in order. One would enable the president to veto individual items in a spending bill while accepting the remainder of the measure. The other would require a balanced federal budget.

PHOTO: T. MICHAEL KEZA

Sen. Dan Coats *says line-item veto authority for the president would be a deficit-cutting tool.*

While Congress continues to resist those key reforms, some members remain committed to them. They include Sens. Dan Coats, R-Ind., and John McCain, R-Ariz., who are sponsoring legislation that would establish a line-item veto through a bill that would need majority approval, as opposed to the two-thirds support required for an amendment.

Under their plan, the president would meet the present requirement of accepting or rejecting appropriations bills *in toto* but then would have 20 days to disapprove specific spending items. The cuts designated by the president would take effect unless Congress disapproved the entire package. A resolution of disapproval would be subject to a presidential veto that could be overridden by a two-thirds vote of both houses.

"This proposal puts the ball in Congress' court and allows the president to have another tool with which to trim the bloated federal deficit," Coats says. "No longer can the Congress simply ignore the president's spending priorities and then blame the growing deficit on him, adding insult to injury."

Congress cannot long avoid the glaring need for overhauling budget procedures that become more unworkable every year. The Coats-McCain bill offers an excellent starting point.

Advice For A Very Busy Chief Executive

President Bush has been dealing almost nonstop with global events dominated by the historic shift from a government-controlled to a market economy in Communist countries. At home, however, Congress and the federal bureaucracy have been on the opposite course with their attempts to restore government controls to an economy that entered a new era of economic freedom during the 1980s.

That prosperity is now threatened, and a leading voice of American business has urged the president to take steps against "those in the agencies and Congress who would diminish your program and violate your policy."

Richard L. Lesher, president of the U.S. Chamber of Commerce, has warned Mr. Bush, "The regulatory tide is turning against the American economy, and the vast majority of the regulations now being promulgated will be costly, counterproductive, and ineffective."

Lesher cited a resurgence of regulatory activity in the environmental, air-travel, auto-manufacturing, labor, and financial areas. Those efforts come at a time when the executive branch's defenses against re-regulation have been weakened through such steps as the apparent dissolution of the Presidential Task Force on Regulatory Relief.

Lesher urged the president to notify the bureaucracy that the Bush administration stands firm on regulatory relief. That's excellent advice in the face of highly disturbing signals to the contrary from too many sectors of the federal government. NB

Free-Spirited Enterprise

By Janet Lowenstein

ILLUSTRATION: CHARLES WALLER

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Business travel may be an ordeal, but it needn't take a toll on you. Travel specialists have come up with some ways to make life on the road less bumpy. Here are some of their ideas:

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But if you're not completely satisfied with your hotel stay, you don't pay. No questions asked.

In Cambridge, Mass., the 300-room **Charles Hotel**, in association with neighboring **Barillari Books**, offers its guests "a novel idea in Harvard Square"—Room Service Books. The hotel's bookworms may call the store before its midnight close—by dialing 1234—and within 20 minutes a bellhop will deliver the requested book to the door, gift-wrapped if so desired. The cost of the book and a $3 service fee are added to the hotel bill.

What's hot reading in hotel rooms? *Liar's Poker*, by Michael Lewis, is first, with a trio of close seconds: *Megatrends 2000*, by John Naisbitt and Patricia Aburdene, *Beware the Naked Man Who Offers You His Shirt*, by Harvey MacKay, and *Cuckoo's Egg*, by Clifford Stoll.

If you like to mix the temporal with the celestial, you may enjoy the new rooftop offering from the **Hyatt Regency Maui**—stargazing. Guests at the hotel on Kaanapali Beach, on Hawaii's island of Maui, may look through its one-of-a-kind telescope while a computer positions it to locate and identify objects in the night sky.

Complimentary sky viewings are held five nights a week for hotel guests, and private peerings can be arranged for $35 per person.

Back on the ground, guests heading for the **Marriott Hotel & Resorts** in Chicago can check in as soon as they board the hotel's van from O'Hare Airport. During certain peak travel times, a front-desk clerk greets guests aboard the van and handles preliminary check-in for them.

Guests at the **Embassy Suites Hotel** didn't want things so easy: They asked for exercise facilities. Nineteen of the hotels now offer "Cycle Suites"—hotel rooms equipped with stationary bicycles that measure speed, distance, and pulse.

Guests can sweat in some comfort because the bikes face TVs.

LUGGING RIGHT ALONG

If you'd rather lift weights, Lifeline International, of Madison, Wis., has a way for you to take them with you on your travels.

The company's **Lifeline USA Gym** is a two-pound portable exercise system consisting of a lifting bar, jogging belt, cable, door attachment, hand and foot handles, and carrying case. A book and videotape show how to use the equipment.

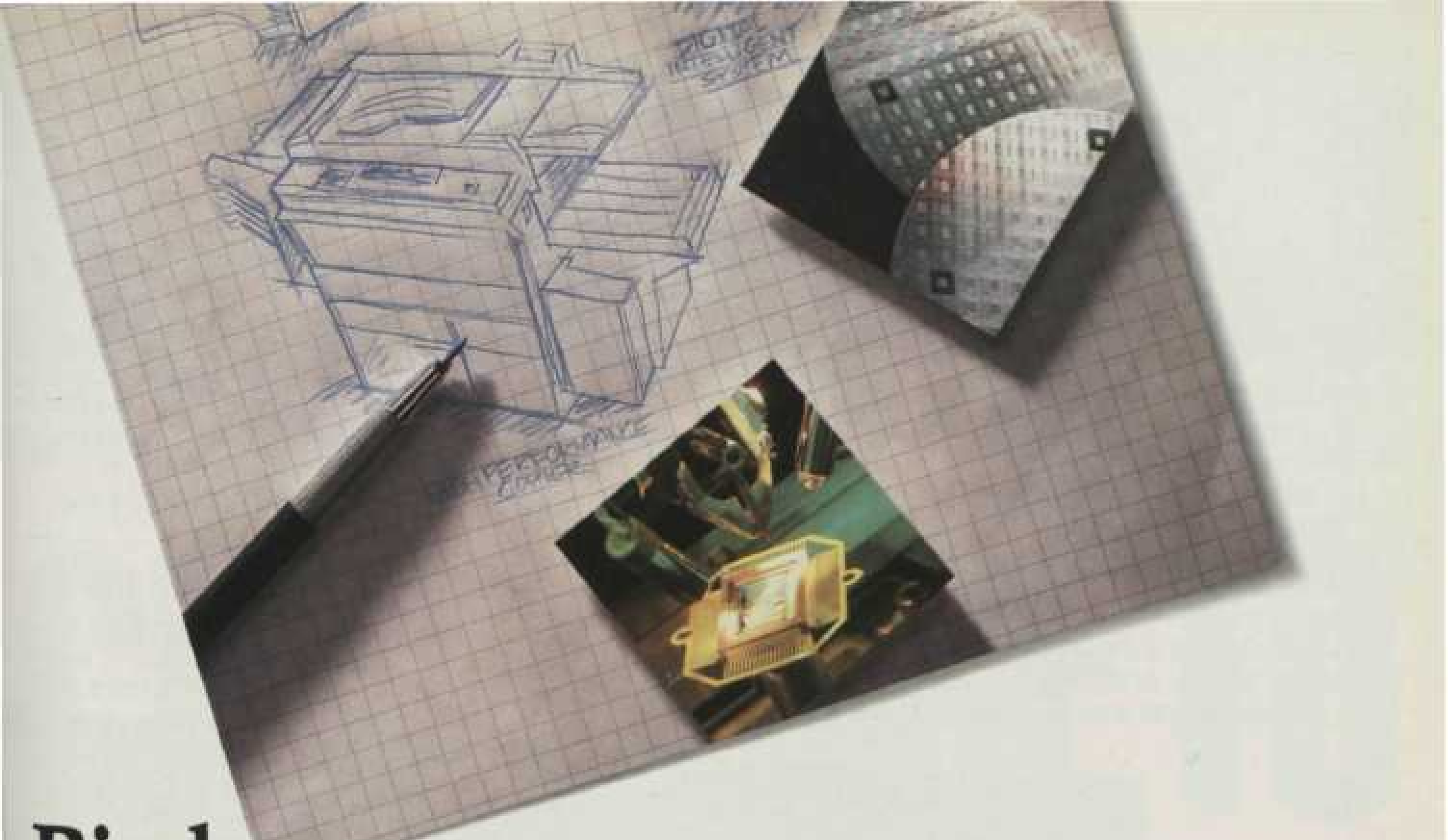
Of course, some travelers may be just as happy watching the video.

PACKING IT IN

Magellan's of Santa Barbara, Calif., thinks you'll need more than exercise when you travel abroad. The catalog company's 32-page *Essentials For The International Traveler* describes hundreds of items such as portable clotheslines, adaptor plugs, head rests, a sink stopper, and a burglar alarm in the shape of a door stop—all those things you never knew you should have taken along.

When you get there, you may have a different notion about jet lag and time-zone changes. Daniel Bloom has developed a one-day 32-hour clock that he calls, appropriately enough, the **New Clock**. Each hour on the New Clock is 45 minutes long. Bloom says it's for high-tech, fast-paced people who don't need 60 minutes to do an hour's work, or for those who want to feel they have more hours in the day.

Bloom expects the clock to be available this summer—when the days are already long. NB



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